

BIOLASE TECHNOLOGY INC  
Form 10-Q/A  
September 17, 2003

=====

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

-----

FORM 10-Q/A  
(Amendment No. 1)

(mark one)

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

For the quarterly period ended March 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 000-19627

BIOLASE TECHNOLOGY, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware	87-0442441
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

981 Calle Amanecer  
San Clemente, California 92673  
(Address of Principal Executive Offices, Including Zip Code)

(949) 361-1200  
(Registrant's Telephone Number, Including Area Code)

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

Number of shares outstanding of the registrant's common stock, \$0.001 par value, as of August 31, 2003: 21,539,571.

# Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

BIOLASE TECHNOLOGY, INC.  
AMENDMENT NO. 1 TO QUARTERLY REPORT ON FORM 10-Q/A

FOR THE QUARTER ENDED MARCH 31, 2003

## INDEX\*

### PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements (Unaudited):	
	Consolidated Balance Sheets as of March 31, 2003 and December 31, 2002 (Restated).....	
	Consolidated Statements of Operations for the three months ended March 31, 2003 and March 31, 2002 (Restated).....	
	Consolidated Statements of Cash Flows for the three months ended March 31, 2003 and March 31, 2002 (Restated).....	
	Notes to Consolidated Financial Statements.....	
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	
	Risk Factors.....	
Item 3.	Quantitative and Qualitative Disclosures about Market Risk.....	
Item 4.	Controls and Procedures.....	

### PART II. OTHER INFORMATION

Item 1.	Legal Proceedings.....	
Item 6.	Exhibits and Reports on Form 8-K.....	
	Signatures.....	

-----  
\* This Form 10-Q/A amends only items identified in the Index, and no other information included in the Company's Quarterly Report on Form 10-Q is amended hereby.

2

### INTRODUCTORY NOTE

As reported in the press release in the report of BioLase Technology, Inc. (the "Company") on Form 8-K filed August 14, 2003, the Company decided to seek guidance from the Securities and Exchange Commission ("SEC") regarding the accounting effect of certain language in the Company's purchase order forms. To protect the Company's right to payment, the forms stated that title to goods transferred to the customer upon receipt of full payment. Legally this language only provided the Company a lien to secure payment.

One of the revenue recognition criteria of Staff Accounting Bulletin No.

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

101 ("SAB 101"), Revenue Recognition in Financial Statements, requires the transfer of title and the risks and rewards of ownership to the customer. Historically, the Company recognized revenue when it received a purchase order, goods were shipped and the other criteria for revenue recognition were met. As reported in the press release in the Company's report on Form 8-K filed August 29, 2003, the Company is amending previously filed financial statements for all periods subsequent to the effective date of SAB 101 to recognize revenue with respect to domestic customers upon receipt of full payment. It was determined that under an interpretation of SAB 101 the language in the Company's purchase order regarding title prevents revenue from being recognized until full payment is received. In addition, the Company is amending its previously filed financial statements to recognize revenue with respect to direct European customers upon installation of the equipment, which is when the customer is obligated to pay, and not at the time of shipment.

The purpose of this Amendment No. 1 on Form 10-Q/A is to:

- (i) restate the Company's consolidated financial statements as of March 31, 2003 and for the three months then ended; and
- (ii) modify certain disclosures in response to comments from the SEC in connection with the Company's registration statement on Form S-3 filed on June 19, 2003 for the Company's proposed stock offering.

The Company is filing amended Quarterly Reports on Form 10-Q/A to restate the Company's financial statements for the interim periods ended March 31, 2002 through March 31, 2003. The Company is also filing its Quarterly Report on Form 10-Q for the period ended June 30, 2003, which was delayed while the Company sought SEC guidance on the revenue recognition issue. The Company will also file an amendment to its Current Report on Form 8-K/A relating to its acquisition of the American Dental Laser product line of American Medical Technologies, which was initially filed on June 4, 2003, and subsequently amended on June 23, 2003 and August 1, 2003.

The Company did not amend its annual reports on Form 10-K for years prior to 2002 because financial statements for 2001 and 2000 are contained in the amended Form 10-K/A. Similarly, the Company did not amend its Quarterly Reports on Form 10-Q for the quarterly periods in 2001 because financial statements for those periods are contained in the Forms 10-Q/A the Company is filing for 2002. You should not rely on the financial statements and other financial information contained in the Company's Forms 10-K and 10-Q for periods prior to 2002. You should also not rely on any financial statements or financial information relating to the periods being restated contained in the Company's Forms 8-K that were filed before the amended Form 10-K/A.

Except where this report indicates that information is as of March 31, 2003 or another specific date, the information in this Form 10-Q/A speaks as of the filing date of this Form 10-Q/A. This report should be read in conjunction with Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2002 and with the Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, as well as the Company's subsequent filings.

### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS.

BIOLASE TECHNOLOGY, INC.  
CONSOLIDATED BALANCE SHEETS (Unaudited)

Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

	MARCH 31, 2003	D
	-----	-----
	(Restated - No	No
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 5,811,000	\$
Accounts receivable, less allowance of \$226,000 and \$202,000 in 2003 and 2002, respectively .....	3,833,000	
Inventories, net of reserves of \$346,000 and \$239,000 in 2003 and 2002, respectively .....	3,690,000	
Deferred charges on product shipped .....	1,152,000	
Prepaid expenses and other current assets .....	862,000	
	-----	-----
Total current assets .....	15,348,000	
Property, plant and equipment, net .....	1,750,000	
Patents and trademarks, net .....	61,000	
Other assets .....	39,000	
	-----	-----
Total assets .....	\$ 17,198,000	\$
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Line of credit .....	\$ 1,792,000	\$
Accounts payable .....	1,669,000	
Accrued liabilities .....	3,243,000	
Customer deposits .....	294,000	
Deferred revenue on product shipped .....	3,079,000	
Deferred gain on sale of building, current portion .....	63,000	
Debt .....	1,257,000	
	-----	-----
Total current liabilities .....	11,397,000	
Deferred gain on sale of building .....	126,000	
	-----	-----
Total liabilities .....	11,523,000	
Stockholders' equity:		
Preferred stock, par value \$0.001, 1,000,000 shares authorized, no shares issued and outstanding .....	-	
Common stock, par value \$0.001, 50,000,000 shares authorized; issued and outstanding - 20,773,000 shares in 2003 and 20,131,000 shares in 2002 .....	21,000	
Additional paid-in capital .....	51,136,000	
Accumulated other comprehensive loss .....	(83,000)	
Accumulated deficit .....	(45,399,000)	
	-----	-----
Total stockholders' equity .....	5,675,000	
	-----	-----
Total liabilities and stockholders' equity .....	\$ 17,198,000	\$
	=====	=====

See accompanying notes to consolidated financial statements.

Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

BIOLASE TECHNOLOGY, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	THREE MONTHS ENDED MARCH 31, (Restated - Note 2)	
	2003	2002
Net sales .....	\$ 9,198,000	\$ 5,011,
Cost of sales .....	3,347,000	1,898,
Gross profit .....	5,851,000	3,113,
Other income .....	16,000	16,
Operating expenses:		
Sales and marketing .....	3,625,000	2,074,
General and administrative .....	844,000	474,
Engineering and development .....	512,000	419,
Total operating expenses .....	4,981,000	2,967,
Income from operations .....	886,000	162,
Gain on foreign currency transactions .....	46,000	
Gain on forward exchange contract .....	22,000	
Interest income .....	5,000	3,
Interest expense .....	(19,000)	(33,
Net income .....	\$ 940,000	\$ 132,
NET INCOME PER SHARE:		
Basic .....	\$ 0.05	\$ 0
Diluted .....	\$ 0.04	\$ 0
SHARES USED IN COMPUTING NET INCOME PER SHARE:		
Basic .....	20,383,000	19,791,
Diluted .....	21,898,000	21,404,

See accompanying notes to consolidated financial statements.

BIOLASE TECHNOLOGY, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

THREE MONTHS END  
MARCH 31,  
(Restated - Note

Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

	----- 2003 -----	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income .....	\$ 940,000	\$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization .....	65,000	
Gain on disposal of assets .....	(16,000)	
Gain on foreign exchange contract .....	(22,000)	
Provision (benefit) for bad debts .....	148,000	
Provision for inventory excess and obsolescence .....	107,000	
Changes in assets and liabilities:		
Accounts receivable .....	1,001,000	
Inventory .....	(1,005,000)	
Deferred charges on product shipped .....	264,000	
Prepaid expenses and other assets .....	194,000	
Accounts payable and accrued liabilities .....	(750,000)	
Deferred revenue on product shipped .....	(595,000)	
Customer deposits .....	(35,000)	
	-----	-----
Net cash provided by (used in) operating activities .....	296,000	
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment .....	(39,000)	
	-----	-----
Net cash used in investing activities .....	(39,000)	
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options and warrants .....	1,640,000	
	-----	-----
Net cash provided by financing activities .....	1,640,000	
	-----	-----
Effect of exchange rate changes on cash .....	(26,000)	
	-----	-----
Increase (decrease) in cash and cash equivalents .....	1,871,000	
Cash and cash equivalents at beginning of period .....	3,940,000	
	-----	-----
Cash and cash equivalents at end of period .....	\$ 5,811,000	\$
	=====	=====
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Cash paid during the period for interest .....	\$ 8,000	\$
	=====	=====
Cash paid during the period for taxes .....	\$ 2,000	\$
	=====	=====
NON-CASH FINANCING ACTIVITIES:		
Debt incurred in connection with acquisition of production facility ...	\$ -	\$
	=====	=====

See accompanying notes to consolidated financial statements.

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

The unaudited consolidated financial statements included herein have been prepared on a basis consistent with the restated December 31, 2002 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated financial statements do not include all the footnotes, presentations and disclosures normally required by generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. These financial statements should be read in conjunction with the restated audited consolidated financial statements for the year ended December 31, 2002 and notes thereto included in our Annual Report on Form 10-K/A filed with the Securities and Exchange Commission ("SEC") on September 16, 2003.

The consolidated financial statements include the accounts of BioLase Technology, Inc. and its two wholly-owned subsidiaries: Societe Endo Technic, which is inactive and which we intend to dissolve, and BIOLASE Europe GmbH ("BIOLASE Europe"), a foreign subsidiary incorporated in Germany in December 2001. We have eliminated all material intercompany transactions and balances in the accompanying financial statements.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ materially from those estimates.

The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results to be expected for the full fiscal year.

### NOTE 2 - RESTATEMENT OF FINANCIAL STATEMENTS

Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition in Financial Statements, requires the transfer of title and the risks and rewards of ownership to the customer prior to the recognition of revenue. We originally prepared our financial statements on the basis that this transfer of title occurred upon shipment. Subsequent to the issuance of our consolidated financial statements as of and for the year ended December 31, 2002, it was determined, with respect to sales to domestic customers, that title transferred upon receipt of full payment, due to a clause in our purchase orders. As a result, we have restated our consolidated financial statements as of March 31, 2003 and December 31, 2002 and the three months ended March 31, 2003 and 2002 to defer revenue upon shipment and to recognize it upon receipt of full payment for our domestic customers. It was also determined that revenue recognition for products shipped directly to customers in Europe, which we commenced in 2002, is appropriate at the time of installation, which is when the customer is obligated to pay, and not at the time of shipment as recognized in the previously filed financial statements. In conjunction with these revisions, we have deferred the revenue, the related cost of inventory and related sales commissions.

As a result of the restatement, our net revenue for the three months ended March 31, 2003 increased by \$530,000, our gross profit increased by \$320,000 and our net income increased by \$266,000 (\$0.01 per fully diluted share). For the three months ended March 31, 2002, our net revenue decreased by \$219,000 our gross profit decreased by \$8,000 and our net income decreased by \$13,000 (\$0.00 per fully diluted share).

The statements of operations have been restated as follows:

Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

	THREE MONTHS ENDED MARCH 31, 2003		THREE MONTHS ENDED MARCH 31, 2002	
	AS REPORTED	RESTATED	AS REPORTED	RESTATED
	-----	-----	-----	-----
Net sales .....	\$ 8,668,000	\$ 9,198,000	\$ 5,230,000	\$ 5,011,000
Cost of sales .....	3,137,000	3,347,000	2,109,000	1,898,000
Operating expenses .....	4,927,000	4,981,000	2,988,000	2,967,000
Income from operations .....	604,000	886,000	133,000	162,000
Net income .....	\$ 674,000	\$ 940,000	\$ 119,000	\$ 132,000
Net income per share:				
Basic .....	\$ 0.03	\$ 0.05	\$ 0.01	\$ 0.01
Diluted .....	\$ 0.03	\$ 0.04	\$ 0.01	\$ 0.01

The balance sheets have been restated as follows:

	MARCH 31, 2003		DECEMBER 31, 2002	
	AS REPORTED	RESTATED	AS REPORTED	RESTATED
	-----	-----	-----	-----
Working capital .....	\$ 5,751,000	\$ 3,951,000	\$ 3,484,000	\$ 1,418,000
Total assets .....	15,919,000	17,198,000	14,395,000	16,003,000
Stockholders' equity .....	7,475,000	5,675,000	5,187,000	3,121,000

NOTE 3 - SUPPLEMENTARY BALANCE SHEET INFORMATION

INVENTORIES:	MARCH 31,	DECEMBER 31,
	2003	2002
-----	-----	-----
Materials .....	\$ 1,267,000	\$ 1,124,000
Work-in-process .....	1,198,000	695,000
Finished goods .....	1,225,000	973,000
	-----	-----
Inventories .....	\$ 3,690,000	\$ 2,792,000
	=====	=====

  

PROPERTY, PLANT AND EQUIPMENT, NET:	MARCH 31,	DECEMBER 31,
	2003	2002
-----	-----	-----
Land .....	\$ 297,000	\$ 288,000
Building .....	816,000	792,000
Leasehold improvements .....	101,000	89,000
Equipment and computers .....	784,000	763,000
Furniture and fixtures .....	196,000	184,000
	-----	-----
Total .....	2,194,000	2,116,000
Less accumulated depreciation .....	(444,000)	(383,000)
	-----	-----
Property, plant and equipment, net .....	\$ 1,750,000	\$ 1,733,000
	=====	=====



Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

	MARCH 31, 2003	DECEMBER 31, 2002
PATENTS AND TRADEMARKS, NET:		
Patents .....	\$ 112,000	\$ 112,000
Trademarks .....	69,000	69,000
Total .....	181,000	181,000
Less accumulated amortization .....	(120,000)	(114,000)
Patents and trademarks, net .....	\$ 61,000	\$ 67,000
ACCRUED LIABILITIES:		
Payroll and benefits .....	\$ 1,070,000	\$ 1,320,000
Warranty expense .....	625,000	625,000
Insurance .....	162,000	318,000
Sales taxes .....	837,000	853,000
Other deferred revenue .....	224,000	180,000
Other .....	325,000	284,000
Accrued liabilities .....	\$ 3,243,000	\$ 3,580,000

NOTE 4 - DEBT

At March 31, 2003, we had \$1,792,000 outstanding under a revolving credit agreement with a bank, BSI AG. The revolving credit agreement provides for borrowings of up to \$1,800,000 for financing inventories and is collateralized by substantially all accounts receivable and inventories. The interest rate is based upon LIBOR plus 0.5%. At March 31, 2003, the interest rate on the outstanding balance was 1.88%. The revolving credit agreement expires on July 31, 2003.

At June 30, 2003, we had \$1.8 million outstanding under a \$5.0 million revolving credit facility with Bank of the West. The facility with Bank of the West was entered into May 14, 2003 and is secured by all of our assets, is for a term of one year, bears interest at LIBOR plus 2.25%, and is payable on demand upon expiration of the stated term. Approximately \$1.8 million was drawn immediately to pay off the bank line of credit with BSI AG. Under the terms of our credit line with Bank of the West, we are subject to certain covenants, which include, among other things, covenants to maintain a specified minimum tangible net worth and a specified ratio of current assets to current liabilities, and a covenant to maintain profitability. If we fail to satisfy these covenants and we fail to cure any breach of these covenants within a specified number of days after receipt of notice, Bank of the West could accelerate the entire amount borrowed by us and cancel the line of credit. As a result of the restatement of our financial statements for the years ended December 31, 2002, 2001 and 2000, as explained in Amendment No. 1 to our annual report on Form 10-K/A for the year ended December 31, 2002, our accumulated deficit and our net tangible equity have decreased. Consequently, we are not in compliance with three covenants as of June 30, 2003: timely reporting of our financial statements for the period ended June 30, 2003; minimum tangible net equity, which is \$6,897,000 compared with a minimum required tangible net equity of \$7,000,000; and the ratio of total liabilities to tangible net equity, which is 1.91 compared with a maximum allowed ratio of 1.75. We have obtained waivers from the bank for each item of non-compliance as of June 30, 2003.

In February 2002, our wholly owned subsidiary, BIOLASE Europe, purchased

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

a production facility in Germany with a stated purchase price of \$1,000,000 payable in Euros at the conversion rate of 0.8591. A payment of Euros 582,000 was due on April 1, 2003 and is currently pending based on further discussions with the seller, which may result in a deferral of the payment. We are also negotiating with the seller and a third party for that third party to pay between \$300,000 and \$500,000 of the purchase price in exchange for certain rights that would be granted to the third party. If we are not able to reach an agreement in this regard, we will be required to make another installment of \$150,000 versus \$300,000 as stated in the purchase agreement payable in Euros at the conversion rate of 0.8591 (Euros 175,000) on September 30, 2003. The balance of amounts owed, if any, will be due by December 1, 2003. At March 31, 2003, the balance outstanding was Euros 1,164,000 or \$1.3 million.

### NOTE 5 - COMMITMENTS AND CONTINGENCIES

In March 2001, we entered into a sale-leaseback transaction in which we sold and leased back our manufacturing facility in San Clemente, California. The result of the sale was a \$316,000 gain, which has been deferred and is being amortized over the four years remaining under the lease term. The related lease is being accounted for as an operating lease.

We also lease certain office equipment under operating lease arrangements. Future minimum rental commitments under operating leases as of March 31, 2003 for each of the years ending December 31 are as follows:

Remainder of 2003 .....	\$	202,000
2004 .....		261,000
2005 .....		249,000
2006 .....		61,000
		-----
Total .....	\$	773,000
		=====

9

We are currently involved in two related patent lawsuits with Diodem, LLC, a California limited liability company. On May 2, 2003, we initiated a civil action in the U.S. District Court for the Central District of California against Diodem. In this lawsuit we are seeking a judicial declaration against Diodem that technology we use in our laser systems does not infringe four patents owned by Diodem. Diodem was founded by Collete Cozean, the former chief executive officer of Premier Laser Systems, Inc., a medical laser company which filed for bankruptcy protection in March 2000. Diodem claims to have acquired the four patents at issue in the case from Premier Laser. In 2000 we initiated a patent infringement lawsuit against Premier Laser seeking damages and to prevent Premier from selling competing dental lasers on the grounds that they infringed on certain of our patents. The lawsuit was stayed by the bankruptcy court after Premier filed for bankruptcy.

In response to our lawsuit against Diodem, on May 5, 2003, Diodem added us as a party to an infringement lawsuit it had previously filed in the U.S. District Court for the Central District of California. The other parties to this lawsuit are American Medical Technologies, Inc., Lumenis and its subsidiary OpusDent, Ltd., and Hoya Photonics and its subsidiary Hoya ConBio. OpusDent and Hoya ConBio manufacture and sell dental lasers pursuant to patents originally licensed to them by American Medical Technologies. We acquired the licensed patents and related license agreements in our acquisition of the American Dental Laser product line from American Medical Technologies. Diodem's lawsuit relates both to our Waterlase and to the patents and licenses we acquired from American Medical Technologies. Diodem alleges that technology used in our Waterlase

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

infringes the four patents it acquired from Premier Laser. Diodem also alleges that the products sold by OpusDent and Hoya ConBio pursuant to the licenses we acquired from American Medical Technologies infringe on the patents Diodem acquired from Premier Laser. Diodem's infringement suit seeks treble damages, a preliminary and permanent injunction from further alleged infringement, attorneys' fees and other unspecified damages. Both of these lawsuits are in their preliminary stages, and may proceed for an extended period of time.

On October 31, 2002, we filed a lawsuit in the U. S. District Court for the Central District of California, Southern Division, against American Medical Technologies, Inc. ("AMT"). In the lawsuit, we allege that AMT is infringing certain patents owned by us, which relate to the use of laser and water technology in the medical and dental fields. Our claims arise out of AMT's offer to sell and the sale in the United States of a dental device that uses laser and water technology. In the lawsuit, we are seeking an award of monetary damages and injunctive relief against AMT. While we believe that the case is meritorious, there is no assurance that we will achieve a favorable outcome.

From time to time, we are involved in other legal proceedings incidental to our business. We believe that pending actions, individually and in the aggregate, will not have a material adverse effect on our financial condition, results of operations or cash flows, and that adequate provision has been made for the resolution of such actions and proceedings.

### NOTE 6 - COMPREHENSIVE INCOME

Components of comprehensive income were as follows:

	THREE MONTHS ENDED MARCH 31, (Restated - Note 2)	
	2003	2002
Net income .....	\$ 940,000	\$ 132,000
Other comprehensive (loss) income items:		
Foreign currency translation adjustments ..	(26,000)	4,000
Comprehensive income .....	\$ 914,000	\$ 136,000

### NOTE 7 - EARNINGS PER SHARE

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding. In computing diluted earnings per share, the weighted average number of shares outstanding is adjusted to reflect the effect of potentially dilutive securities.

Stock options totaling 78,000 were not included in the diluted earnings per share amounts for the three months ended March 31, 2002 as their effect would have been anti-dilutive. No stock options were excluded from the diluted earnings per share amounts for the three months ended March 31, 2003.

	THREE MONTHS ENDED MARCH 31, (Restated - Note 2)	
	2003	2002
Net income .....	\$ 940,000	\$ 132,000
Weighted average shares outstanding - basic .....	20,383,000	19,791,000

Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

Dilutive effect of stock options and warrants ....	1,515,000	1,613,000
	-----	-----
Weighted average shares outstanding - diluted ...	21,898,000	21,404,000
	=====	=====

10

NOTE 8 - STOCK-BASED COMPENSATION

On December 31, 2002, the Financial Accounting Standards Board issued SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure, which amends SFAS No. 123. SFAS No. 148 requires more prominent and frequent disclosures about the effects of stock-based compensation for annual and interim periods beginning after December 15, 2002. The disclosure requirements apply to all companies, including those that continue to recognize stock-based compensation under the intrinsic value provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. We will continue to account for our stock based compensation according to the provisions of APB Opinion No. 25.

If we had recognized compensation cost at the date of grant, our pro-forma net income (loss) and pro-forma income (loss) per share would have been as follows:

	THREE MONTHS ENDED MARCH 31, (Restated)
	----- 2003 -----
Net income, as reported .....	\$ 940,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects .....	(132,000)
Pro forma net income (loss) .....	\$ 808,000 =====
Net income (loss) per share:	
Basic - as reported .....	\$ 0.05
Basic - pro forma .....	\$ 0.04
Diluted - as reported .....	\$ 0.04
Diluted - pro forma .....	\$ 0.04

The stock-based employee compensation expense as originally presented was \$154,000, as compared to the restated amount of \$132,000 for the three months ended March 31, 2003. This resulted in an increase in basic and diluted net income per share of \$0.01 and \$0.02, respectively for the three months ended March 31, 2003.

The pro forma amounts were estimated using the Black-Scholes option-pricing model with the following assumptions:

THREE MONTHS ENDED MARCH 31,	
-----	
2003	2002

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

	-----	-----
Expected term (years) .....	3.50	3.50
Volatility .....	84%	64%
Annual dividend per share .....	0%	0%
Risk free interest rate .....	3.05%	4.68%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Our options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate.

### NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

As of March 31, 2002, we had forward exchange contracts in Euros recorded at fair value in Other Assets on our balance sheet. On February 3, 2003 the contracts expired and were not renewed. Since these contracts were not designated as hedges pursuant to SFAS 133, we recognized the changes in fair value of those contracts in our consolidated statements of operations. Gains on those contracts of \$22,000 were recognized for the three months ended March 31, 2003. No gain or loss was recognized for the three months ended March 31, 2002.

11

### NOTE 10 - PRODUCT WARRANTIES

Products sold directly to end-users are under warranty against defects in material and workmanship for a period of one year. Products sold internationally to distributors are covered by a warranty on parts for up to fourteen months with additional coverage on certain components for up to two years. We estimate warranty costs at the time of product shipment based on historical experience. Estimated warranty expenses are recorded as an accrued liability, with a corresponding provision to cost of sales.

Changes in the product warranty accrual for the three months ended March 31, 2003 was as follows:

Warranty accrual, December 31, 2002 .....	\$	625,000
Warranty expenditures .....		(290,000)
Provision for estimated warranty cost during the period ....		290,000
		-----
Warranty accrual, March 31, 2003 .....	\$	625,000
		=====

### NOTE 11 - SUBSEQUENT EVENTS

In addition to the lawsuit filed in May 2003 as described in Note 5, and the new line of credit for which we have violated covenants as described in Note 4, we also completed an acquisition. On May 21, 2003, we acquired the American Dental Laser product line and related dental laser assets of American Medical Technologies, Inc. (AMT) for approximately \$5,765,000. Consideration was \$1,825,000 cash, \$134,000 in costs directly attributable to the acquisition and 307,500 shares of stock valued at \$12.38 per share based on the average closing price between May 19 and May 23, 2003. The assets included dental laser patents, customer lists, brand names and other intellectual property as well as laser products. No liabilities of AMT were assumed in the transaction. The purchase price will be allocated to the tangible and identifiable intangible assets acquired based on their fair value with any residual amount recorded as

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

goodwill. As a part of the purchase transaction, we and AMT agreed to dismiss with prejudice the lawsuit we had filed in October 2002 against AMT which alleged infringement of certain of our patents.

12

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

#### CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING INFORMATION

You should read the following discussion and analysis in conjunction with our Unaudited Consolidated Financial Statements and related Notes thereto contained elsewhere in this amended quarterly report on Form 10-Q/A (the "Report"). The information contained in this Report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Report and in our other reports filed with the Securities and Exchange Commission, including our Amended Annual Report on Form 10-K/A for the year ended December 31, 2002, and our subsequent reports on Forms 10-Q and other filings that discuss our business in greater detail. This Report contains forward-looking statements that can often be identified by words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will," "should," "would," "potential," "continue," and variations of these words or similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Examples of these forward-looking statements include, but are not limited to, statements concerning the application of our technology, the potential of our market and our position in it, our manufacturing capacity, estimates concerning asset valuation and loss contingencies and expectations concerning future costs and cash flow, and our ability to successfully finance our business or replace existing loans. These forward-looking statements are based on our current expectations, estimates and projections about our industry, and reflect our beliefs and certain assumptions made by us. These statements speak only as of the date of this Report and are based upon the information available to us at this time. Such information is subject to change, and we will not necessarily inform you of such changes. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are set forth in "Risk Factors," below. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

#### RESTATEMENT OF FINANCIAL STATEMENTS

Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition in Financial Statements, requires the transfer of title and the risks and rewards of ownership to the customer prior to the recognition of revenue. We originally prepared our financial statements on the basis that this transfer of title occurred upon shipment. Subsequent to the issuance of our consolidated financial statements as of and for the year ended December 31, 2002, it was determined, with respect to sales to domestic customers, that title transferred upon receipt of full payment, due to a clause in our purchase orders. As a result, we have restated our consolidated financial statements as of March 31, 2003 and for the three months then ended to defer revenue upon shipment and to recognize it upon receipt of full payment for our domestic customers. It was also determined that revenue recognition for products shipped directly to customers in Europe, which we commenced in 2002, is appropriate at the time of installation, which is

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

when the customer is obligated to pay, and not at the time of shipment as recognized in the previously filed financial statements. In conjunction with these revisions, we have deferred the revenue, the related cost of inventory and related sales commissions.

As a result of the restatement, our net revenue for the three months ended March 31, 2003 increased by \$530,000, our gross profit increased by \$320,000 and our net income increased by \$266,000 (\$0.01 per fully diluted share). For the three months ended March 31, 2002, our net revenue decreased by \$219,000 our gross profit decreased by \$8,000 and our net income decreased by \$13,000 (\$0.00 per fully diluted share).

13

The statements of operations have been restated as follows:

	THREE MONTHS ENDED MARCH 31, 2003		THREE MONTHS ENDED MARCH 31, 2002	
	AS REPORTED	RESTATED	AS REPORTED	RESTATED
Net sales .....	\$ 8,668,000	\$ 9,198,000	\$ 5,230,000	\$ 5,011,000
Cost of sales .....	3,137,000	3,347,000	2,109,000	1,898,000
Operating expenses .....	4,927,000	4,981,000	2,988,000	2,967,000
Income from operations .....	604,000	886,000	133,000	162,000
Net income .....	\$ 674,000	\$ 940,000	\$ 119,000	\$ 132,000
Net income per share:				
Basic .....	\$ 0.03	\$ 0.05	\$ 0.01	\$ 0.01
Diluted .....	\$ 0.03	\$ 0.04	\$ 0.01	\$ 0.01

The balance sheets have been restated as follows:

	MARCH 31, 2003		DECEMBER 31, 2002	
	AS REPORTED	RESTATED	AS REPORTED	RESTATED
Working capital .....	\$ 5,751,000	\$ 3,951,000	\$ 3,484,000	\$ 1,418,000
Total assets .....	15,919,000	17,198,000	14,395,000	16,003,000
Stockholders' equity .....	7,475,000	5,675,000	5,187,000	3,121,000

### OVERVIEW

We are the world's leading dental laser company. We design, manufacture and market proprietary dental laser systems that allow dentists, oral surgeons and other specialists to perform a broad range of common dental procedures, including cosmetic applications. Our systems provide superior performance for many types of dental procedures, with less pain and faster recovery times than are generally achieved with drills and other dental instruments. We have clearance from the U. S. Food and Drug Administration to market our laser systems in the United States. We also have the approvals necessary to sell our laser systems in Canada, the European Union and other international markets. Since 1998, we have sold more than 2,000 laser systems in over 20 countries.

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

We have the following principal product lines: (i) Waterlase system; (ii) LaserSmile system; (iii) American Dental Laser products, including the Diolase and Pulsemaster systems, and (iv) related accessories and disposables for use with our laser systems. Our product, the Waterlase system, is used for hard and soft tissue dental procedures, and can be used to perform most procedures currently performed using dental drills, scalpels and other traditional dental instruments. The LaserSmile system is used for a range of soft tissue procedures and tooth whitening. Our newly acquired Diolase and Pulsemaster systems are primarily used for soft tissue procedures. We also manufacture and sell accessories and disposables, such as handpieces, laser tips and tooth whitening gel, for use with our dental laser systems.

14

### Company Background

From inception in 1987 until 1998, we were engaged primarily in the research and development of the use of water and laser technology. Our company was originally formed as Societe Endo Technic, SA, or SET, in 1984 in Marseilles, France, to develop and market various endodontic and laser products developed by Dr. Guy Levy, then chairman of the Endodontics Department at the University of Marseilles. In 1987, SET was moved to the United States and was merged with a public holding company, Pamplona Capital Corp. In 1994, we changed our name to BioLase Technology, Inc. Through the end of fiscal 2000, we were financed by approximately \$42 million in stockholder investments through a series of private placements of stock and the exercise of warrants and stock options.

Since 1998, our objective has been to become the leading designer, manufacturer and marketer of laser systems for the dental industry. We have focused our efforts on receiving governmental clearances with the U.S. Food and Drug Administration as well as furthering the commercial success and viability of our water and laser technology via our direct sales campaign initiatives and intellectual property advancements. In 1998, we began the commercialization of our systems based on water and laser technology.

### Recent Acquisitions

The selective pursuit of acquisitions represents an important component of our business strategy. We focus primarily on those candidates that will enable us to consolidate positions of leadership in our existing markets, further develop our portfolio of intellectual property, expand our strategic partnerships with leading companies and increase our capability and capacity to derive value for our customers and stockholders.

In December 2001, we formed BIOLASE Europe, GmbH, a wholly owned subsidiary based in Germany. In February 2002, BIOLASE Europe acquired a laser manufacturing facility in Germany and commenced manufacturing operations at that location. This acquisition has enabled us to initiate an expansion of our sales in Europe and neighboring regions. We purchased the facility for cash consideration of approximately Euros 1.2 million payable in installments through 2003, subject to reduction if we were unable to conclude a patent license arrangement with the seller and another company. We did not conclude that arrangement and the consideration was reduced in September 2003 to Euros 989,000 per the agreement. We are in discussions with the seller regarding a further reduction based on our belief that the seller failed to fulfill its responsibilities under the purchase agreement.

On May 21, 2003, we acquired the American Dental Laser product line and



## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

other dental laser assets of American Medical Technologies, Inc., or AMT, for approximately \$5.8 million, consisting of \$1.8 million in cash, 307,500 shares of our common stock and \$134,000 in costs directly attributable to the acquisition. As a part of the purchase transaction, we and AMT agreed to dismiss with prejudice the lawsuit we had filed in October 2002 against AMT which alleged infringement of certain of our patents. In the dismissal, AMT acknowledged that it had infringed our intellectual property rights as identified in our complaint and recognized that the patents we had asserted in the legal action are valid and enforceable. The acquired assets included dental laser patents, customer lists, brand names and other intellectual property as well as laser systems, including the Diolase and Pulsemaster systems. The purchase price will be allocated to the assets based on their fair value. We intend to sell the Diolase and Pulsemaster systems both domestically and internationally under the American Dental Laser brand name, commencing in the second half of 2003. We expect sales of the new systems to begin in the second half of 2003.

15

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for each period.

The following represents a summary of our critical accounting policies, defined as those policies that we believe are: (i) the most important to the portrayal of our financial condition and results of operations, and (ii) that require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

**Revenue Recognition.** We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, or SAB 101, as amended by SAB 101A and 101B. SAB 101 requires that four basic criteria must be met before revenue can be recognized:

- . persuasive evidence of an arrangement exists;
- . delivery has occurred and title and the risks and rewards of ownership have been transferred to our customer or services have been rendered;
- . the price is fixed and determinable; and
- . collectibility is reasonably assured.

Assuming that all of the above criteria have been met, we record revenue for domestic sales when we receive payment in full, due to a clause in our purchase order that states title transfers upon payment in full; we record revenue for international direct sales when the product is installed, which is when the customer is obligated to pay and we record revenue for sales to distributors upon delivery.

**Valuation of Accounts Receivable.** We maintain an allowance for

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

uncollectible accounts receivable to estimate the risk of extending credit to customers. The allowance is estimated based on customer compliance with credit terms, the financial condition of the customer and collection history where applicable. Additional allowances could be required if the financial condition of our customers were to be impaired beyond our estimates.

**Valuation of Inventory.** Inventory is valued at the lower of cost (estimated using the first-in, first-out method) or market. We periodically evaluate the carrying value of inventories and maintain an allowance for obsolescence to adjust the carrying value as necessary to the lower of cost or market. The allowance is based on physical and technical functionality as well as other factors affecting the recoverability of the asset through future sales. Unfavorable changes in estimates of obsolete inventory would result in an increase in the allowance and a decrease in gross profit.

**Valuation of Long-Lived Assets.** Property, plant and equipment, intangible and certain other long-lived assets are amortized over their useful lives. Useful lives are based on our estimate of the period that the assets will generate revenue or otherwise productively support our business goals. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through future business operations. In our estimate, no provision for impairment is currently required on any of our long-lived assets.

**Warranty Cost.** Products sold directly to end-users are covered by a warranty against defects in material and workmanship for a period of one year. Products sold internationally to distributors are covered by a warranty on parts for up to fourteen months with additional coverage on certain components for up to two years. We accrue a warranty reserve to estimate the risk of incurring costs to provide warranty services. The accrual is based on our historical experience and our expectation of future conditions. An increase in warranty claims or in the costs associated with servicing those claims would result in an increase in the accrual and a decrease in gross profit.

16

**Litigation and Other Contingencies.** We regularly evaluate our exposure to threatened or pending litigation and other business contingencies. Because of the uncertainties related to the amount of loss from litigation and other business contingencies, the recording of losses relating to such exposures requires significant judgment about the potential range of outcomes. As additional information about current or future litigation or other contingencies becomes available, we will assess whether such information warrants the recording of additional expense relating to contingencies. To be recorded as expense, a loss contingency must be both probable and measurable. If a loss contingency is material but is not both probable and estimable, we will disclose it in notes to the financial statements.

### RESULTS OF OPERATIONS

The following table sets forth certain statements of operations data expressed as a percentage of net sales:

	THREE MONTHS ENDED MARCH 31, (Restated - Note 2)	
	2003	2002
Net sales .....	100.0%	100.0%

Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

Cost of sales .....	36.4	37.9
	-----	-----
Gross profit .....	63.6	62.1
	-----	-----
Other income .....	0.2	0.3
	-----	-----
Operating expenses:		
Sales and marketing .....	39.4	41.4
General and administrative .....	9.2	9.4
Engineering and development .....	5.6	8.4
	-----	-----
Total operating expenses .....	54.2	59.2
	-----	-----
Income from operations .....	9.6	3.2
Non-operating income (loss) .....	0.6	(0.6)
	-----	-----
Net income .....	10.2%	2.6%
	=====	=====

THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

Comparing the results of operations between the three months ended March 31, 2003 and March 31, 2002, the most significant change affecting operating results is the increase in sales. Sales for the three months ended March 31, 2003 increased 84% over sales for the three months ended March 31, 2002.

Net Sales. Net sales for the three months ended March 31, 2003 were \$9.2 million, an increase of \$4.2 million, as compared with net sales of \$5.0 million for the three months ended March 31, 2002. The increase in sales resulted primarily from an increased number of units sold. The Waterlase and LaserSmile systems accounted for approximately 81% and approximately 13% of our net sales for the three months ended March 31, 2003, respectively. We expect the Waterlase will continue to account for the majority of our sales.

We began making direct sales in Germany in the third quarter of 2002. In February of 2003, we terminated our distributor in Germany primarily due to its failure to meet sales quotas under its distribution agreement with us. The agreement was originally signed in 2000 and renewed in 2002. The agreement required minimum sales of \$10,000,000 over the two-year term following the renewal. The average quarterly sales generated by our distributor from the time of the renewal until we terminated the distributor were nearly 50% less than the quota provided under the distribution agreement. To replace the distributor, we entered into contracts with independent sales agents within Germany, which we believe provides a better sales channel in Germany. The termination of the distribution agreement has not adversely affected sales for the three months ended March 31, 2003. No sales were made by our distributor in 2003. Sales by our direct sales force accounted for approximately \$0.1 million of revenue for the three months ended March 31, 2003. We intend to continue to sell through distributors in our other international markets and to increase and strengthen our international distribution network. International sales were \$2.3 million for the three months ended March 31, 2003 (25% of total net sales), as compared to \$660,000 in 2002 (13% of total net sales).

Gross Profit. Gross profit for the three months ended March 31, 2003 was \$5.9 million or 64% of net sales, an increase of \$2.8 million or 88% from gross profit of \$3.1 million or 62% of net sales for the three months ended March 31, 2002. The increase in gross profit is primarily attributable to leveraging the increase in net sales against fixed and partially fixed manufacturing costs, reflecting better absorption of fixed manufacturing costs. To a lesser extent, the increase in gross profit is also due to increased manufacturing efficiencies and design changes, which

have reduced the cost of materials. These efficiencies and cost savings have been partially offset by the addition of production and field technician resources to support anticipated sales growth.

**Operating Expenses.** Operating expenses as a percentage of revenue for the three months ended March 31, 2003 and 2002 was 54% and 59%, respectively. Approximately 80% of the increase in operating expenses for the three months ended March 31, 2003 is sales and marketing costs that have been incurred to generate the increase in net sales.

Sales and marketing expenses generally include salaries and commissions for our direct sales force, advertising costs and expenses related to trade shows and seminars. Although we expected sales to vary with our historical seasonality pattern, we continued to invest in marketing programs geared to achieve our target growth rate for the fiscal year. Sales and marketing expense for the three months ended March 31, 2003 was \$3.6 million or 39% of net sales, an increase of \$1.5 million or 75%, as compared with sales and marketing expense for the three months ended March 31, 2002 of \$2.1 million or 41% of net sales. The increase in absolute dollars was primarily due to higher commission expense related to the increased sales, as well as increases in costs related to our national seminar marketing program. In addition, the size and scope of the World Clinical Laser Institute symposium held in January 2003 increased significantly over the program held in the first quarter of 2002.

General and administrative expenses generally include the salaries of administrative personnel as well as professional and regulatory fees. General and administrative expense for the three months ended March 31, 2003 was \$844,000 or 9% of net sales, an increase of \$370,000 or 78%, as compared with general and administrative expense for the three months ended March 31, 2002 of \$474,000 or 9% of net sales. The increase in absolute dollars was principally due to an increase in the provision for doubtful accounts, bank charges relating to credit card sales and increased insurance costs. Other significant cost increases affecting both cost of sales and operating expenses include 52% and 17% increases in workers' compensation insurance and group health insurance, respectively. Additionally, the three months ended March 31, 2002 included a reduction of \$95,000 from our allowance for uncollectible accounts due to previously unanticipated payments received from a foreign distributor.

Engineering and development expenses generally include engineering personnel salaries, prototype supplies and contract services. Engineering and development expense for the three months ended March 31, 2003 was \$512,000 or 6% of net sales, an increase of \$93,000 or 22%, as compared with engineering and development expense for the three months ended March 31, 2002 of \$419,000 or 8% of net sales. The increase in absolute dollars is prototype material costs and consulting fees related to product development. The change in research and development expense as a percent of net sales reflects the larger sales base and normal fluctuations in the scope of current research and development projects.

**Gain on Forward Currency Transactions.** We realized a \$46,000 gain on forward currency transactions for the three months ended March 31, 2003, primarily due to the changes in exchange rates between the United States dollar and the European Union euro.

**Gain on Forward Exchange Contract.** In the three months ended March 31, 2003, we realized a gain on forward contracts of \$22,000, due to the increase in the fair market value of our forward exchange contract. We acquired a production facility in Germany in February of 2002. The debt related to those assets is payable in Euros at the exchange rate in effect as of the date of acquisition.

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

That exchange rate was 0.8591. In conjunction with a portion of the debt due in 2003, we entered into a forward contract to purchase approximately \$700,000 of Euros at an exchange rate of 0.8575. On February 3, 2003, the contracts expired and were not renewed, resulting in a cumulative realized gain on the contracts of \$174,000.

Interest Income/Interest Expense. Interest income primarily relates to interest earned on our cash balances, and interest expense primarily relates to interest expense on our line of credit. Interest expense decreased \$14,000 or 42% to \$19,000 for the three months ended March 31, 2003 as compared to March 31, 2002 due to a decrease in the effective interest rate on our credit facility.

Provision for Income Tax. No provision for income tax was recognized for the three months ended March 31, 2003 due to the availability of net operating loss carry forwards. No income tax benefit was recognized in the three months ended March 31, 2002, as there was no assurance that the benefit of the net operating loss carry forwards would be realized. At such time, if in our judgment the recoverability of deferred tax assets, including the net operating loss carryforward, becomes realizable, we will reduce the valuation allowance against our deferred tax

18

assets, record an income tax benefit and subsequently record a provision for income tax for financial statement purposes based on the amount of income reported.

As of December 31, 2002, we had net operating loss carry forwards for federal and state purposes of approximately \$34.9 million and \$7.5 million, respectively, which began expiring in 2001. As of December 31, 2002, we had research and development credit carry forwards for federal and state purposes of approximately \$332,000 and \$170,000, respectively. The utilization of net operating loss and credit carry forwards may be limited under the provisions of Internal Revenue Code Section 382 and similar state provisions.

### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2003, we had \$4.0 million in net working capital as compared to \$1.4 million at December 31, 2002. Our principal source of liquidity at March 31, 2003 consisted of our cash balance of \$5.8 million. For the three months ended March 31, 2003, our primary sources of cash were from operating activities of \$296,000 and the exercise of stock options and warrants of \$1.6 million. These sources of cash were decreased by investments in property and equipment of \$39,000. The net effect on cash of operating, investing and financing transactions for the three months ended March 31, 2003 was an increase of \$1.9 million. For further details see the Unaudited Consolidated Statements of Cash Flows included in this Report.

Accounts receivable, net, decreased 23% to \$3.8 million at March 31, 2003 from \$5.0 million at December 31, 2002. This decrease was primarily due to the seasonality effect of the first quarter and normal fluctuations in the collection cycle. Day's sales outstanding also decreased to 39 days from 45 days as of December 31, 2002. Inventories, net, increased 32% to \$3.7 million at March 31, 2003 from \$2.8 million at December 31, 2002. This increase was primarily due to increased production estimates to meet expected 2003 sales demand.

During the quarter ended March 31, 2003, 410,000 warrant shares were exercised resulting in cash proceeds of \$1.1 million. Subsequent to March 31,

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

2003, the balance of outstanding warrants, 162,500 shares, were exercised, resulting in cash proceeds of \$406,000.

At March 31, 2003, we had \$1.8 million outstanding under a \$1.8 million revolving credit facility with a bank. This same amount that was outstanding at December 31, 2002. In May 2003, we secured a \$5.0 million credit facility through Bank of the West. The facility with Bank of the West is secured by all of our assets, is for a term of one year, bears interest at LIBOR plus 2.25% and is payable on demand upon expiration of the stated term. Approximately \$1.8 million was drawn immediately to pay off the bank line of credit with BSI AG. Under the terms of our credit line with Bank of the West, we are subject to certain covenants, which include, among other things, covenants to maintain a specified minimum tangible net worth and a specified ratio of current assets to current liabilities, and a covenant to maintain profitability. If we fail to satisfy these covenants and we fail to cure any breach of these covenants within a specified number of days after receipt of notice, Bank of the West could accelerate the entire amount borrowed by us and cancel the line of credit. We have \$6.6 million in available cash as of June 30, 2003. We believe any cancellation of our bank line would not have a material impact on our liquidity and that our cash from operations and our current cash balances will be sufficient to finance the cost of our operations. As a result of the restatement of our financial statements for the years ended December 31, 2002, 2001 and 2000, as explained in Amendment No. 1 to our annual report on Form 10-K/A for the year ended December 31, 2002, our accumulated deficit and our net tangible equity have decreased. Consequently, we are not in compliance with three covenants as of June 30, 2003: timely reporting of our financial statements for the period ended June 30, 2003; minimum tangible net equity, which is \$6,897,000 compared with a minimum required tangible net equity of \$7,000,000; and the ratio of total liabilities to tangible net equity, which is 1.91 compared with a maximum allowed ratio of 1.75. We have obtained waivers from the bank for each item of non-compliance as of June 30, 2003.

We purchased our production facility in Germany in February 2002 for cash consideration of approximately Euros 1.2 million payable in installments through 2003, subject to reduction in certain circumstances. The maximum consideration was reduced in September 2003 to Euros 989,000 in accordance with the terms of the agreement with the seller. However, we are in discussions with the seller regarding a further reduction based on the seller's failure to fulfill its responsibilities under the purchase agreement. The purchase agreement provides for a payment of Euros 582,000 by April 1, 2003, which has not been paid pending these discussions. Payments of Euros 175,000 and 232,000 are required under the purchase agreement to be paid on September 30 and December 1, 2003 respectively. Outstanding amounts under the purchase agreement bear interest at less than one percent per annum.

19

On May 21, 2003 we acquired the American Dental Laser product line from American Medical Technologies, Inc., or AMT, for approximately \$5.8 million. The assets acquired included dental laser patents, customer lists, brand names and other intellectual property as well as laser products. No outstanding debt of AMT was assumed in the transaction. The consideration paid by us consisted of approximately \$1.8 million cash, \$134,000 in transaction costs directly attributable to the acquisition and 307,500 shares of common stock with a fair value of approximately \$3.8 million. For purposes of computing the purchase price, the value of the common stock of \$12.38 per share was determined by taking the average closing price of our common stock as quoted on the Nasdaq National Market between May 19, 2003 and May 23, 2003.

The following table presents our expected cash requirements for

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

contractual obligations outstanding as of March 31, 2003 for the years ending December 31:

	MARCH 31, 2003	NINE MONTHS ENDING DECEMBER 31, 2002	YEARS ENDING DECEMBER	
	-----	-----	-----	-----
			2004	2005
Line of credit .....	\$ 1,792,000	\$ 1,792,000	\$ -	\$ -
Debt .....	1,257,000	1,257,000	-	-
Operating leases .....	773,000	202,000	261,000	249,000
Total .....	\$ 3,822,000	\$ 3,251,000	\$ 261,000	\$ 249,000
	=====	=====	=====	=====

We believe that our current cash balances, cash expected to be generated from our operations, together with additional cash expected to be received through the exercise of warrants and stock options will be adequate to meet our debt service requirements and sustain our operations for at least the next twelve months.

### RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the EITF reached a consensus on Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. This issue provides guidance on when and how to separate elements of an arrangement that may involve the delivery or performance of multiple products, services and rights to use assets into separate units of accounting. The guidance in the consensus is effective for revenue arrangements entered into in fiscal periods, interim or annual, beginning after June 15, 2003. We will adopt issues No. 00-21 in the quarter beginning July 1, 2003. We do not believe that the adoption of Issue No. 00-21 will have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2003, the FASB issued statement of Financial Accounting Standards No. 150, Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We do not believe that the adoption of SFAS 150 will have a material impact to our consolidated financial position, results of operations, or cash flows.

20

### RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and all the other information in this prospectus before making an investment decision about our common stock. While the risks described below are the ones we believe are most important for you to

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

consider, these risks are not the only ones that we face. If any of the following risks actually occurs, our business, operating results or financial condition could suffer, the trading price of our common stock could decline and you could lose all or part of your investment.

### RISKS RELATING TO OUR BUSINESS

Our quarterly sales and operating results may fluctuate in future periods and we may fail to meet expectations, which may cause the price of our common stock to decline.

Our quarterly sales and operating results have fluctuated and are likely to continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. If our quarterly sales or operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Factors that might cause quarterly fluctuations in our sales and operating results include the following:

- . variation in demand for our products, including variation due to seasonality;
- . our ability to research, develop, introduce, market and gain market acceptance of new products and product enhancements in a timely manner;
- . our ability to control costs;
- . the size, timing, rescheduling or cancellation of significant customer orders;
- . the introduction of new products by competitors;
- . long sales cycles and fluctuations in sales cycles;
- . the availability and reliability of components used to manufacture our products;
- . changes in our pricing policies or those of our suppliers and competitors, as well as increased price competition in general;
- . the mix of our domestic and international sales, and the risks and uncertainties associated with our international business;
- . costs associated with any future acquisitions of technologies and businesses;
- . limitations on our ability to use net operating loss carryforwards under the provisions of Internal Revenue Code Section 382 and similar provisions under applicable state laws;
- . developments concerning the protection of our proprietary rights; and
- . general global economic and political conditions, including international conflicts and acts of terrorism.

A significant amount of our sales in any quarter may consist of sales through distributors. Sales from distributors accounted for approximately 16% of our revenue in 2002, but no single distributor accounted for more than 10% of our sales in any given quarter. As a result, the timing of orders by distributors may impact our quarter-to-quarter results. The loss of or a substantial reduction in orders from distributors could seriously harm our business, financial condition and results of operations. Additionally, the amount of expenses we incur, in part, depends on our expectations regarding



## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

future sales. In particular, we expect to continue incurring substantial expenses relating to the marketing and promotion of our products. Since many of our costs are fixed in the short term, if we have a shortfall in sales, we may be unable to reduce expenses quickly enough to avoid losses. Accordingly, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of our future performance.

21

Dentists and patients may be slow to adopt laser technologies, which could limit the market acceptance of our products.

Our dental laser systems represent relatively new technologies in the dental market. Currently, only a small percentage of dentists use lasers to perform dental procedures. Our future success will depend on our ability to increase demand for our products by demonstrating to a broad spectrum of dentists and patients the potential performance advantages of our laser systems over traditional methods of treatment and over competitive laser systems. Dentists have historically been and may continue to be slow to adopt new technologies on a widespread basis. Factors that may inhibit adoption of laser technologies by dentists include cost, and concerns about the safety, efficacy and reliability of lasers. Economic pressure may make dentists reluctant to purchase substantial capital equipment or invest in new technologies. Patient acceptance will depend in part on the recommendations of dentists and specialists as well as other factors, including without limitation, the relative effectiveness, safety, reliability and comfort of our systems as compared with those of other instruments and methods for performing dental procedures. The failure of dental lasers to achieve broad market acceptance would have an adverse effect on our business, financial condition and results of operations. We cannot assure you that we will have sufficient resources to continue to successfully market our products to achieve broad market acceptance.

We may have difficulty managing our growth.

We have been experiencing significant growth in the scope of our operations and the number of our employees. This growth has placed significant demands on our management as well as our financial and operational resources. In order to achieve our business objectives, we anticipate that we will need to continue to grow. If this growth occurs, it will continue to place additional significant demands on our management and our financial and operational resources, and will require that we continue to develop and improve our operational, financial and other internal controls both in the United States and internationally. In particular, our growth has and, if it continues, will increase the challenges involved in implementing appropriate operational and financial systems, expanding manufacturing capacity and scaling up production, expanding our sales and marketing infrastructure and capabilities, providing adequate training and supervision to maintain high quality standards, and preserving our culture and values. The main challenge associated with our growth has been, and we believe will continue to be, our ability to recruit skilled sales, manufacturing and management personnel. Our inability to scale our business appropriately or otherwise adapt to growth would cause our business, financial condition and results of operations to suffer.

If we are unable to protect our intellectual property rights, our competitive position could be harmed or we could be required to incur expenses to enforce our rights.

Our future success will depend, in part, on our ability to obtain and maintain patent protection for our products and technology, to preserve our trade secrets and to operate without infringing the intellectual property of

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

others. In part, we rely on patents to establish and maintain proprietary rights in our technology and products. While we hold a number of issued patents and have other patent applications pending on our products and technology, we cannot assure you that any additional patents will be issued, that the scope of any patent protection will exclude competition or that any of our patents will be held valid if subsequently challenged. Other companies also may independently develop similar products, duplicate our products or design products that circumvent our patents. Additionally, the laws of foreign countries may not protect our products or intellectual property rights to the same extent as do the laws of the United States.

We face substantial uncertainty regarding the impact that other parties' intellectual property positions will have on the markets for dental and other medical lasers. Competitors may claim that we have infringed their current or future intellectual property rights. The medical technology industry has in the past been characterized by a substantial amount of litigation and related administrative proceedings regarding patents and intellectual property rights. We may not prevail in any future intellectual property infringement litigation given the complex technical issues and inherent uncertainties in litigation. Any claims, with or without merit, could be time-consuming and distracting to management, result in costly litigation, cause product shipment delays, or require us to enter into royalty or licensing agreements. Additionally, if an intellectual property claim against us is successful, we might not be able to obtain a license on acceptable terms or license a substitute technology or redesign our products to avoid infringement. Any of the foregoing adverse events could seriously harm our business, financial condition and results of operations.

22

We are a party to two related patent infringement lawsuits involving patents relating to our core technology, which if determined adversely to us, could have a significant negative effect on our earnings.

We are currently involved in two patent related lawsuits with Diodem, LLC, a California limited liability company, which was founded by Collete Cozean, the former chief executive officer of Premier Laser Systems, Inc. On May 2, 2003, we initiated a civil action in the U.S. District Court for the Central District of California against Diodem, in which we are seeking a judicial declaration against Diodem that technology used in our laser systems does not infringe four patents owned by Diodem. Diodem claims to have acquired the patents from Premier Laser Systems, Inc., which filed for bankruptcy protection in March 2000. On May 5, 2003, Diodem added us as a party to an infringement lawsuit it had previously filed in the U.S. District Court for the Central District of California. Diodem alleges that our technology, including the technology used in our Waterlase system, infringes four patents it acquired from Premier. Diodem's infringement suit seeks treble damages, a preliminary and permanent injunction from further alleged infringement, attorneys' fees and other unspecified damages. Both of these lawsuits are in their preliminary stages, and may proceed for an extended period of time. There can be no assurance that our technology will not be found to infringe any of Diodem's patents at issue in these proceedings or that we will not be liable for some or all of the damages alleged by Diodem or subject to some or all of the relief requested by Diodem.

In addition, these lawsuits could result in significant expenses and diversion of management's time and other resources. If Diodem successfully asserts an infringement claim against us in its infringement lawsuit, our operations may be severely impacted, especially to the extent that it affects our right to use the technology incorporated in our Waterlase system, which

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

accounted for approximately 77% of our revenue in 2002 and approximately 80% of our revenue for the three months ended March 31, 2003. Diodem's infringement proceeding could also result in significant limitations on our ability to manufacture, market and sell our products, including our Waterlase system, as well as delays and costs associated with redesigning our products and payments of license fees, monetary damages and other payments. Additionally, we may be enjoined from incorporating certain technology into our products, all of which could significantly impede our operations, increase operating expenses, reduce our revenue and cause us to incur losses.

We depend on a limited number of suppliers and if we cannot secure alternate suppliers, the amount of sales in any period could be adversely affected.

We purchase certain materials and components included in our Waterlase system and other products from a limited group of suppliers using purchase orders, and we have no written supply contracts with our key suppliers. Our business depends in part on our ability to obtain timely deliveries of materials and components in acceptable quality and quantities from our suppliers. The introduction of our LaserSmile system in 2001 was delayed due to an interruption in the supply of components for the system, however, we have not otherwise experienced material delays in the supply of components. Certain components of our products, particularly specialized components used in our lasers, are currently available only from a single source or limited sources. For example, the crystal, fiber and handpieces used in our Waterlase system, which accounted for approximately 77% of our revenue in 2002 and approximately 80% of our revenue for the three months ended March 31, 2003, are each supplied by a separate single supplier. We have not experienced material delays from these suppliers, and we have identified and tested alternative suppliers for each of these three components. However, an unexpected interruption in a single source supplier could create manufacturing delays, and disrupt sales and cash flow as we sought to replace the supplier, which we estimate could take up to three months. Such an interruption could cause our business, financial condition and results of operations to suffer.

We have significant international sales and are subject to risks associated with operating in international markets.

International sales comprise a significant portion of our net sales and we intend to continue to pursue and expand our international business activities. International sales accounted for approximately 23% of our revenue in 2002. Political and economic conditions outside the United States could make it difficult for us to increase our international sales or to operate abroad. International operations, including our facility in Germany, are subject to many inherent risks, including:

- . adverse changes in tariffs;
  - . political, social and economic instability and increased security concerns;
- 23
- . fluctuations in currency exchange rates;
  - . longer collection periods and difficulties in collecting receivables from foreign entities;
  - . exposure to different legal standards;
  - . ineffectiveness of international distributors;

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

- . reduced protection for our intellectual property in some countries;
- . burdens of complying with a variety of foreign laws;
- . import and export license requirements and restrictions of the United States and each other country in which we operate;
- . trade restrictions;
- . the imposition of governmental controls;
- . unexpected changes in regulatory or certification requirements;
- . difficulties in staffing and managing international manufacturing and sales operations; and
- . potentially adverse tax consequences and the complexities of foreign value added tax systems.

We believe that international sales will continue to represent a significant portion of our net sales, and we intend to further expand our international operations. Our sales in Europe are denominated principally in Euros, while our sales in other international markets are in dollars. As a result, an increase in the relative value of the dollar against the Euro would lead to less income from sales denominated in Euros, unless we increase prices, which may not be possible due to competitive conditions in Europe. We realized a gain of \$22,000 on foreign currency transactions for the three month period ended March 31, 2003, due to a decrease in the value of the dollar relative to the value of the Euro. We could experience losses from European transactions if the relative value of the dollar were to increase in the future. We do not currently engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations, although we may consider doing so in the future. We also expect that sales of products manufactured at our facility in Germany will account for an increasing percentage of our revenue, which will further increase our exposure to the above-described risks associated with our international operations. Sales of products manufactured at our German facility accounted for 9% of our revenue in 2002 and 9% of our revenue for the three months ended March 31, 2003. Since expenses relating to our manufacturing operations in Germany are paid in Euros, an increase in the value of the Euro relative to the dollar would increase the expenses associated with our German manufacturing operations and reduce our earnings. In addition, we may experience difficulties associated with managing our operations remotely and complying with German regulatory and legal requirements for maintaining our manufacturing operations in that country. Any of these factors may adversely affect our future international sales and manufacturing operations and, consequently, negatively impact our business, financial condition and operating results. Despite these risks, we believe the market for our products outside the United States justifies our effort to expand our international operations.

If we are unable to meet customer demand or comply with quality regulations, our sales will suffer.

We manufacture our products at our California and German production facilities. In order to achieve our business objectives, we will need to significantly expand our manufacturing capabilities to produce the systems and accessories necessary to meet demand. We intend to finance the cost of expansion through operating income, funds available under our bank credit line and a portion of the proceeds from this offering. We may encounter difficulties in scaling-up production of our products, including problems involving production capacity and yields, quality control and assurance, component supply and shortages of qualified personnel. In addition, our manufacturing facilities are

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

subject to periodic inspections by the U.S. Food and Drug Administration, state agencies and foreign regulatory agencies. Our success will depend in part upon our ability to manufacture our products in compliance with the U.S. Food and Drug Administration's Quality System regulations and other regulatory requirements. Our

24

business will suffer if we do not succeed in manufacturing our products on a timely basis and with acceptable manufacturing costs while at the same time maintaining good quality control and complying with applicable regulatory requirements.

Any failure to significantly expand sales of our products will negatively impact our business.

We currently handle a majority of the marketing, distribution and sales of our laser systems. In order to achieve our business objectives, we will need to significantly expand our marketing and sales efforts on a nationwide and global basis. We will face significant challenges and risks in expanding, training, managing and retaining our sales and marketing teams, including managing geographically dispersed efforts. In addition, we use third party distributors to sell our products in a number of countries outside the United States, and are dependent on the sales and marketing efforts of these third party distributors. These distributors may not commit the necessary resources to effectively market and sell our products. If we are unable to expand our sales and marketing capabilities, we may not be able to effectively commercialize our products.

Acquisitions could have unintended negative consequences, which could harm our business.

As part of our business strategy, we may acquire one or more businesses, products or technologies. Most recently, in May 2003, we acquired the American Dental Laser product line and related dental laser assets of American Medical Technologies, Inc., including the Diolase and Pulsemaster systems, and related inventory, patents and other intellectual property rights. We are currently in the process of integrating the assets relating to the American Dental Laser product line into our operations. We must effectively integrate the American Dental Laser product line into our operations in order to achieve profitability from it. The pro forma income statement for the year ended December 31, 2002 included in this prospectus shows a net loss when the seller's historical losses from operating this product line are combined with our operations for 2002. However, we believe we can integrate the acquired assets into our sales and manufacturing infrastructure with minimal increase to our operating expenses because we acquired principally patents, brand names, customer lists and other intangibles and we did not assume the seller's personnel, facilities or other overhead.

Acquisitions could require significant capital infusions and could involve many risks, including, but not limited to, the following:

- . we may encounter difficulties in assimilating and integrating the operations, products and workforce of the acquired companies;
- . acquisitions may negatively impact our results of operations because they may require large one-time charges or could result in increased debt or contingent liabilities, adverse tax consequences, substantial depreciation or deferred compensation charges, or the amortization or write down of amounts related to deferred compensation, goodwill and

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

- other intangible assets;
- . acquisitions may be dilutive to our existing stockholders;
- . acquisitions may disrupt our ongoing business and distract our management; and
- . key personnel of the acquired company may decide not to work for us.

We cannot assure you that we will be able to identify or consummate any future acquisitions on acceptable terms, or at all. If we do pursue any acquisitions, it is possible that we may not realize the anticipated benefits from such acquisitions or that the market will not positively view such acquisitions.

We may be unable to comply with covenants contained in our credit agreement, which could result in the impairment of our working capital and alter our ability to operate our business.

In May 2003, we secured a new credit facility through Bank of the West. At March 31, 2003, the outstanding principal balance on this credit facility was \$1.8 million. To maintain the right to borrow under this credit facility and avoid a default under our credit agreement with Bank of the West, we are required to satisfy certain financial tests and comply with certain operating covenants contained in that agreement. Our ability to satisfy required financial ratios and tests can be affected by events beyond our control, including prevailing economic, financial and

25

industry conditions, and we cannot assure you that we will continue to meet those ratios and tests in the future. A breach of any of these covenants, ratios or tests could result in a default under our credit agreement. If we default, our lender will no longer be obligated to extend credit to us and could elect to declare all amounts outstanding under the credit agreement, together with accrued interest, to be immediately due and payable. If we were unable to repay those amounts, our lender could proceed against the collateral granted to it to secure that indebtedness, which includes our intellectual property. The results of such action would have a significant negative impact on our results of operations and financial condition. As a result of the restatement of our financial statements for the years ended December 31, 2002, 2001 and 2000, as explained in Amendment No. 1 to our annual report on Form 10-K/A for the year ended December 31, 2002, our accumulated deficit and our net tangible equity have decreased. Consequently, we are not in compliance with three covenants as of June 30, 2003: timely reporting of our financial statements for the period ended June 30, 2003; minimum tangible net equity, which is \$6,897,000 compared with a minimum required tangible net equity of \$7,000,000; and the ratio of total liabilities to tangible net equity, which is 1.91 compared with a maximum allowed ratio of 1.75. We have obtained waivers from the bank for each item of non-compliance as of June 30, 2003.

Material increases in interest rates may harm our sales.

We currently sell our products primarily to dentists in general practice. These dentists often purchase our products with funds they secure through various financing arrangements with third party financial institutions, including credit facilities and short term loans. If interest rates increase, these financing arrangements will be more expensive to our dental customers, which would effectively increase the price of our products to our customers and, thereby, may decrease overall demand for our products. Any reduction in the

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

sales of our products would cause our business to suffer.

We may not be able to compete successfully against our current and future competitors.

We compete with a number of foreign and domestic companies that market traditional dental products, such as dental drills, as well as other companies that market laser technologies in the dental and medical markets that we address, including companies such as Hoya ConBio, a subsidiary of Hoya Photonics, a large Japanese manufacturer primarily of optics and crystals, OpusDent Ltd., a subsidiary of Lumenis, Deka Dental Corporation and Fotona d.d. Some of our competitors have greater financial, technical, marketing or other resources than us, which may allow them to respond more quickly to new or emerging technologies and to devote greater resources to the acquisition or development and introduction of enhanced products than we can. In addition, the rapid technological changes occurring in the healthcare industry are expected to lead to the entry of new competitors, especially as dental and medical lasers gain increasing market acceptance. Our ability to anticipate technological changes and to introduce enhanced products on a timely basis will be a significant factor in our ability to grow and remain competitive. New competitors or technological changes in laser products and methods could cause commoditization of such products, require price discounting or otherwise adversely affect our gross margins.

Rapid changes in technology could harm the demand for our products or result in significant additional costs.

The markets in which our laser systems compete are subject to rapid technological change, evolving industry standards, changes in the regulatory environment, frequent new device introductions and evolving dental and surgical techniques. These changes could render our products uncompetitive or obsolete. The success of our existing and future products is dependent on the differentiation of our products from those of our competitors, the timely introduction of new products and the perceived benefit to the customer in terms of improved patient satisfaction and return on investment. The process of developing new medical devices is inherently complex and requires regulatory approvals or clearances that can be expensive, time consuming and uncertain. We cannot assure you that we will successfully identify new product opportunities, be financially or otherwise capable of completing the research and development required to bring new products to market in a timely manner or that products and technologies developed by others will not render our products obsolete.

The failure to attract and retain key personnel could adversely affect our business.

Our future success depends in part on the continued service of certain key personnel, including our Chief Executive Officer, our Executive Vice President responsible for sales, our Vice President of Research and Development and our Chief Financial Officer. We do not have employment agreements with any of our key employees, other than an employment agreement with our Chief Executive Officer, which expires in January 2004,

26

and an employment agreement with our Executive Vice President responsible for sales, which can be terminated at will by the executive or by us.

Our success will also depend in large part on our ability to continue to attract, retain and motivate qualified engineering and other highly skilled technical personnel. Competition for certain employees, particularly development

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

engineers, is intense despite the effects of the economic slowdown. We may be unable to continue to attract and retain sufficient numbers of such highly skilled employees. Our inability to attract and retain additional key employees or the loss of one or more of our current key employees could adversely affect our business, financial condition and results of operations.

Product liability claims against us could be costly and could harm our reputation.

The sale of dental and medical devices involves the inherent risk of product liability claims against us. We currently maintain product liability insurance on a per occurrence basis with a limit of \$11 million per occurrence and \$12 million in the aggregate for all occurrences. The insurance is subject to various standard coverage exclusions, including damage to the product itself, losses from recall of our product and losses covered by other forms of insurance such as workers compensation. There is no assurance that we will be able to obtain such insurance in the future on terms acceptable to us, or at all. We do not know whether claims against us with respect to our products, if any, would be successfully defended or whether our insurance would be sufficient to cover liabilities resulting from such claims. Any claims successfully brought against us would cause our business to suffer.

We are exposed to risks associated with the recent worldwide economic slowdown and related uncertainties.

Concerns about decreased consumer and investor confidence, reduced corporate profits and capital spending, and recent international conflicts and terrorist and military activity have resulted in a downturn in the equity markets and a slowdown in economic conditions, both domestically and internationally, and have caused concern about the strength or longevity of an economic recovery. These unfavorable conditions could ultimately cause a slowdown in customer orders or cause customer order cancellations. In addition, recent political and social turmoil related to international conflicts and terrorist acts may put further pressure on economic conditions in the United States and abroad. Unstable political, social and economic conditions make it difficult for our customers, our suppliers and us to accurately forecast and plan future business activities. If such conditions continue or worsen, our business, financial condition and results of operations could suffer.

We may not be able to secure additional financing to meet our future capital needs.

We expect to expend significant capital to further develop our products, increase awareness of our laser systems and our brand names and to expand our operating and management infrastructure as we increase sales in the United States and abroad. We may use capital more rapidly than currently anticipated. Additionally, we may incur higher operating expenses and generate lower revenue than currently expected, and we may be required to depend on external financing to satisfy our operating and capital needs, including the repayment of our debt obligations. We may be unable to secure additional debt or equity financing on terms acceptable to us, or at all, at the time when we need such funding. If we do raise funds by issuing additional equity or convertible debt securities, the ownership percentages of existing stockholders would be reduced, and the securities that we issue may have rights, preferences or privileges senior to those of the holders of our common stock or may be issued at a discount to the market price of our common stock which would result in dilution to our existing stockholders. If we raise additional funds by issuing debt, we may be subject to debt covenants, such as the debt covenants under our secured credit facility, which could place limitations on our operations including our ability to declare and pay dividends. Our inability to raise additional funds on a timely basis would make it difficult for us to achieve our business objectives and would have a negative impact on our business, financial condition and results of



## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

operations.

We have adopted anti-takeover defenses that could delay or prevent an acquisition of our company and may affect the price of our common stock.

Certain provisions of our certificate of incorporation and stockholder rights plan could make it difficult for any party to acquire us, even though an acquisition might be beneficial to our stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

27

In December 1998, we adopted a stockholder rights plan pursuant to which one preferred stock purchase right is distributed to our stockholders for each share of our common stock held by them. In connection with the stockholder rights plan, the Board of Directors may issue up to 500,000 shares of Series B Junior Participating Cumulative Preferred Stock. If any party acquires 15% or more of our outstanding common stock, the holders of these rights will be able to purchase the underlying junior participating preferred stock as a way to discourage, delay or prevent a change in control of our company.

In addition, under our certificate of incorporation, the Board of Directors has the power to authorize the issuance of up to 500,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without further vote or action by the stockholders. Accordingly, our Board of Directors may issue preferred stock with terms that could have preference over and adversely affect the rights of holders of our common stock.

The issuance of any preferred stock may:

- . delay, defer or prevent a change in control of BioLase;
- . discourage bids for the common stock at a premium over the market price of our common stock;
- . adversely affect the voting and other rights of the holders of our common stock; and
- . discourage acquisition proposals or tender offers for our shares.

Our shares may be delisted if our stock price drops below \$5.00 per share or if we otherwise fail to comply with applicable listing requirements.

We are required to maintain a stock price of approximately \$5.00 per share in order to maintain our listing on the Nasdaq National Market. If our stock price drops below approximately \$5.00 per share for an extended period of time or we are otherwise unable to satisfy the continued listing requirements of the Nasdaq National Market, our shares could be delisted from the Nasdaq National Market and the marketability, liquidity and price of our common stock would be adversely affected.

### RISKS RELATING TO OUR INDUSTRY

Changes in government regulation or the inability to obtain or maintain necessary government approvals could harm our business.

Our products are subject to extensive government regulation, both in the United States and in other countries. To clinically test, manufacture and market

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

products for human use, we must comply with regulations and safety standards set by the U.S. Food and Drug Administration and comparable state and foreign agencies. Regulations adopted by the U.S. Food and Drug Administration are wide ranging and govern, among other things, product design, development, manufacture and testing, labeling, storage, advertising and sales. Generally, products must meet regulatory standards as safe and effective for their intended use before being marketed for human applications. The clearance process is expensive, time-consuming and uncertain. Failure to comply with applicable regulatory requirements of the U.S. Food and Drug Administration can result in an enforcement action which may include a variety of sanctions, including fines, injunctions, civil penalties, recall or seizure of our products, operating restrictions, partial suspension or total shutdown of production and criminal prosecution. The failure to receive or maintain requisite approvals for the use of our products or processes, or significant delays in obtaining such approvals, could prevent us from developing, manufacturing and marketing products and services necessary for us to remain competitive. In addition, unanticipated changes in existing regulatory requirements or the adoption of new requirements could impose significant costs and burdens on us, which could increase our operating expenses, reduce our revenue and profits, and result in operating losses.

If our customers cannot obtain third party reimbursement for their use of our products, they may be less inclined to purchase our products.

Our products are generally purchased by dental or medical professionals who have various billing practices and patient mixes. Such practices range from primarily private pay to those who rely heavily on third party payors,

28

such as private insurance or government programs. In the United States, third party payors review and frequently challenge the prices charged for medical services. In many foreign countries, the prices for dental services are predetermined through government regulation. Payors may deny coverage and reimbursement if they determine that the procedure was not medically necessary, such as a cosmetic procedure, or that the device used in the procedure was investigational. We believe that most of the procedures being performed with our current products generally are reimbursable, with the exception of cosmetic applications such as tooth whitening. For the portion of dentists who rely heavily on third party reimbursement, the inability to obtain reimbursement for services using our products could deter them from purchasing or using our products. We cannot predict the effect of future healthcare reforms or changes in financing for health and dental plans. Any such changes could have an adverse effect on the ability of a dental or medical professional to generate a return on investment using our current or future products. Such changes could act as disincentives for capital investments by dental and medical professionals and could have a negative impact on our business, financial condition and results of operations.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As discussed in Note 4 to the Unaudited Consolidated Financial Statements, we acquired a production facility in Germany in February of 2002. The debt related to those assets is payable in Euros at the exchange rate in effect as of the date of acquisition. That exchange rate was 0.8591. In conjunction with portion of the debt due in 2003, we entered into a forward contract to purchase approximately \$700,000 of Euros at an exchange rate of 0.8575. On February 3, 2003, the contracts expired and were not renewed, resulting in a cumulative realized gain on the contracts of \$174,000.

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

Since February 3, 2003, we have not engaged in transactions to offset currency fluctuations, and we are at risk for changes in the value of the dollar relative to the Euro with respect to our obligation to repay the debt on our German facility. The value of the German facility itself as stated in dollars on our balance sheet will vary as the exchange rate of the dollar and the Euro varies. Our sales in Europe are denominated principally in Euros, and our sales in other international markets are denominated in dollars. As a result, an increase in the relative value of the dollar to the Euro would lead to less income from sales denominated in Euros, unless we increase prices, which may not be possible due to competitive conditions in Europe. Additionally, since expenses relating to our manufacturing operations in Germany are paid in Euros, an increase in the value of the Euro relative to the dollar would increase the expenses associated with our German manufacturing operations and reduce our earnings.

Our bank line of credit at March 31, 2003 accrued interest at a variable rate tied to LIBOR plus 0.5%, which made the current interest rate 1.9%. Our bank line of credit at June 30, 2003 bears interest at a variable rate tied to LIBOR plus 2.25%, which makes the current effective interest rate 3.4% at June 30, 2003. A 10% increase in LIBOR would increase the effective interest rate from 3.4% to 3.5%, which would not result in a material difference to our interest expense on our outstanding bank debt of \$1.8 million.

### ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of disclosure controls and procedures. We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of a date within 90 days of the initial filing date of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, our Chief Executive Officer and Chief Financial Officer have concluded that, subject to the

29

limitations noted above and except as indicated below in paragraph (b) of this item, our disclosure controls and procedures were effective to ensure that material information relating to us, including our consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q/A was being prepared.

(b) Changes in internal control over financial reporting. There was no

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation described in Item 4(a) above that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. However, we have been notified by our independent accountants that there exists a material weakness with respect to our internal controls surrounding our evaluation of the terms and conditions of our arrangements with our customers to determine the appropriate timing of revenue recognition. The registrant has modified and standardized its purchase order forms to conform to the revenue recognition criteria in SAB 101 and is implementing controls over future modifications to its purchase order forms.

30

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS.

On October 31, 2002, we filed a lawsuit in the U. S. District Court for the Central District of California, Southern Division, against American Medical Technologies, Inc. ("AMT"). In the lawsuit, we alleged that AMT was infringing certain patents we own, which relate to the use of laser technology in the medical and dental fields. Our claims arose out of AMT's offer to sell and sale in the United States of a dental device that uses laser and water technology. We were seeking an award of monetary damages and injunctive relief against AMT. We settled the lawsuit in connection with our acquisition of the American Dental Laser product line from AMT in May 2003.

We are currently involved in two related patent lawsuits with Diodem, LLC, a California limited liability company. On May 2, 2003, we initiated a civil action in the U.S. District Court for the Central District of California against Diodem. In this lawsuit we are seeking a judicial declaration against Diodem that technology we use in our laser systems does not infringe four patents owned by Diodem. Diodem was founded by Collete Cozean, the former chief executive officer of Premier Laser Systems, Inc., a medical laser company which filed for bankruptcy protection in March 2000. Diodem claims to have acquired the four patents at issue in the case from Premier Laser. In 2000 we initiated a patent infringement lawsuit against Premier Laser seeking damages and to prevent Premier from selling competing dental lasers on the grounds that they infringed on certain of our patents. The lawsuit was stayed by the bankruptcy court after Premier filed for bankruptcy.

In response to our lawsuit against Diodem, on May 5, 2003, Diodem added us as a party to an infringement lawsuit it had previously filed in the U.S. District Court for the Central District of California. The other parties to this lawsuit are American Medical Technologies, Inc., Lumenis and its subsidiary OpusDent, Ltd., and Hoya Photonics and its subsidiary Hoya ConBio. OpusDent and Hoya ConBio manufacture and sell dental lasers pursuant to patents originally licensed to them by American Medical Technologies. We acquired the licensed patents and related license agreements in our acquisition of the American Dental Laser product line from American Medical Technologies. Diodem's lawsuit relates both to our Waterlase and to the patents and licenses we acquired from American Medical Technologies. Diodem alleges that technology used in our Waterlase infringes the four patents it acquired from Premier Laser. Diodem also alleges that the products sold by OpusDent and Hoya ConBio pursuant to the licenses we acquired from American Medical Technologies infringe on the patents Diodem acquired from Premier Laser. Diodem's infringement suit seeks treble damages, a preliminary and permanent injunction from further alleged infringement, attorneys' fees and other unspecified damages. Both of these lawsuits are in their preliminary stages, and may proceed for an extended period of time.

## Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

Although the outcome of these actions cannot be determined with certainty, we believe our technology and products do not infringe any valid patent rights owned by Diodem, and we intend to continue to vigorously defend against Diodem's infringement action and pursue our declaratory relief action against Diodem.

We are not currently subject to any other material pending or threatened legal proceedings.

31

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

- (a) 10.10 Form of Purchase Order Terms and Conditions relating to domestic sales (effective for sales after August 4, 2003). \*

10.12 Form of Purchase Order Terms and Conditions from National Technology Leasing Corporation. \*

10.13 BioLase and NTL Agreement dated August 5, 2003, between National Technology Leasing Corporation and BioLase Technology, Inc. \*

10.14 Credit Agreement dated May 14, 2003, between Bank of the West and BioLase Technology, Inc. \*

31.1 Certification of Jeffrey W. Jones Pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended. \*\*

31.2 Certification of Edson J. Rood Pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended. \*\*

32.1 Certification of Jeffrey W. Jones Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*

32.2 Certification of Edson J. Rood Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*

- (b) There were no Reports on Form 8-K filed during the quarter for which this Report is filed.

-----  
\* File with Amendment No. 1 to Registrant's Annual Report on Form 10-K/A filed on September 16, 2003 and incorporated herein by reference.  
\*\* Filed herewith.

32

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: September 16, 2003

BIOLASE TECHNOLOGY, INC.,

Edgar Filing: BIOLASE TECHNOLOGY INC - Form 10-Q/A

a Delaware corporation

By: /s/ EDSON J. ROOD

-----  
Edson J. Rood  
Vice President and  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

33