

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

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
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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, 2002

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 (I.R.S. Employer Identification No.)  
Incorporation or Organization)

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

Number of shares outstanding of the registrant's common stock, \$0.001  
par value, as of April 22, 2002: 20,027,948.

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BIOLASE TECHNOLOGY, INC.

AMENDMENT NO. 1 TO QUARTERLY REPORT ON FORM 10-Q/A

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For the Quarter Ended March 31, 2002

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\* 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.

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### 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. 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

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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, 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 restate the Company's consolidated financial statements as of March 31, 2002 and December 31, 2001, and the three months ended March 31, 2002 and 2001.

The Company is filing amended Quarterly Reports on Form 10-Q/A to restate the Company's financial statements for the 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.

This Form 10-Q/A only reflects the effects of the restatement and does not otherwise reflect events occurring after the filing of the original Quarterly Report on Form 10-Q or otherwise modify or update those disclosures.

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### PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS.

##### BIOLASE TECHNOLOGY, INC. CONSOLIDATED BALANCE SHEETS (Unaudited)

|   | MARCH 31,<br>2002   | DECEMBER 31,<br>2001 |
|---|---------------------|----------------------|
|   | -----               | -----                |
|   | (Restated - Note 2) |                      |
| ASSETS  |                     |                      |
| Current assets:   |                     |                      |
| Cash and cash equivalents   | \$ 2,469,000        | \$ 2,670,000         |
| Accounts receivable, less allowance of \$100,000 and \$108,000 in 2002 and 2001, respectively | 2,428,000           | 2,182,000            |
| Inventories, net of reserves of \$228,000 and \$232,000 in 2002 and 2001, respectively        | 2,232,000           | 1,887,000            |
| Deferred charges on product shipped   | 837,000             | 605,000              |

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|   |              |              |
|---|--------------|--------------|
| Prepaid expenses and other current assets   | 259,000      | 260,000      |
|   | -----        | -----        |
| Total current assets  | 8,225,000    | 7,604,000    |
| Property, plant and equipment, net  | 1,431,000    | 392,000      |
| Patents and trademarks, net   | 85,000       | 91,000       |
| Other assets  | 247,000      | 166,000      |
|   | -----        | -----        |
| Total assets  | \$ 9,988,000 | \$ 8,253,000 |
|   | =====        | =====        |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |              |              |
| Current liabilities:  |              |              |
| Line of credit  | \$ 1,792,000 | \$ 1,792,000 |
| Accounts payable  | 1,740,000    | 1,656,000    |
| Accrued liabilities   | 1,855,000    | 1,976,000    |
| Customer deposits   | 87,000       | 290,000      |
| Deferred revenue on product shipped   | 1,758,000    | 1,626,000    |
| Deferred gain on sale of building, current portion  | 63,000       | 63,000       |
| Current portion of long-term debt   | 300,000      | -            |
|   | -----        | -----        |
| Total current liabilities   | 7,595,000    | 7,403,000    |
| Deferred gain on sale of building   | 189,000      | 205,000      |
| Long term debt  | 700,000      | -            |
|   | -----        | -----        |
| Total liabilities   | 8,484,000    | 7,608,000    |
|   | -----        | -----        |
| Stockholders' equity:   |              |              |
| Preferred stock, par value \$0.001, 1,000,000 shares authorized,<br>no shares issued and outstanding                                  | -            | -            |
| Common stock, par value \$0.001, 50,000,000 shares authorized,<br>issued and outstanding 20,018,000 in 2002 and 19,734,000<br>in 2001 | 20,000       | 20,000       |
| Additional paid-in capital  | 49,185,000   | 48,462,000   |
| Accumulated other comprehensive income  | 4,000        | -            |
| Accumulated deficit   | (47,705,000) | (47,837,000) |
|   | -----        | -----        |
| Total stockholders' equity  | 1,504,000    | 645,000      |
|   | -----        | -----        |
| Total liabilities and stockholders' equity  | \$ 9,988,000 | \$ 8,253,000 |
|   | =====        | =====        |

See accompanying notes to consolidated financial statements.

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ITEM 1. FINANCIAL STATEMENTS (continued).

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

THREE MONTHS ENDED  
MARCH 31,

|       |       |
|-------|-------|
| ----- | ----- |
| 2002  | 2001  |
| ----- | ----- |

(Restated - Note 2)

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|  |              |                |
|--|--------------|----------------|
| Net sales  | \$ 5,011,000 | \$ 2,643,000   |
| Cost of sales  | 1,898,000    | 1,196,000      |
|  | -----        | -----          |
| Gross profit   | 3,113,000    | 1,447,000      |
|  | -----        | -----          |
| Other income   | 16,000       | -              |
|  | -----        | -----          |
| Operating expenses:                                    |              |                |
| Sales and marketing                                    | 2,074,000    | 1,641,000      |
| General and administrative                             | 474,000      | 474,000        |
| Engineering and development                            | 419,000      | 360,000        |
|  | -----        | -----          |
| Total operating expenses                               | 2,967,000    | 2,475,000      |
|  | -----        | -----          |
| Income (loss) from operations                          | 162,000      | (1,028,000)    |
| Interest income  | 3,000        | 6,000          |
| Interest expense                                       | (33,000)     | (76,000)       |
|  | -----        | -----          |
| Net income (loss)                                      | \$ 132,000   | \$ (1,098,000) |
|  | =====        | =====          |
| Net earnings (loss) per share -                        |              |                |
| Basic  | \$ 0.01      | \$ (0.06)      |
|  | =====        | =====          |
| Diluted  | \$ 0.01      | \$ (0.06)      |
|  | =====        | =====          |
| Shares used in computing net income (loss) per share - |              |                |
| Basic  | 19,791,000   | 19,430,000     |
|  | =====        | =====          |
| Diluted  | 21,404,000   | 19,430,000     |
|  | =====        | =====          |

See accompanying notes to consolidated financial statements.

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ITEM 1. FINANCIAL STATEMENTS (continued).

BIOLASE TECHNOLOGY, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

|  | PREFERRED STOCK<br>SHARES | STOCK<br>AMOUNT | COMMON STOCK AND<br>ADDITIONAL PAID-IN<br>SHARES | CAPITAL<br>AMOUNT | ACCUMULATED<br>OTHER<br>COMPREHENSIVE<br>INCOME |
|--|---------------------------|-----------------|--|-------------------|---|
|  | -----                     | -----           | -----  | -----             | -----   |
| Balances at December 31, 2001<br>(Restated - Note 2) | -                         | \$ -            | 19,734,000                                       | \$ 48,482,000     | \$ -  |
| Exercise of stock options                            | -                         | -               | 119,000  | 310,000           | -   |

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|  |   |      |            |               |          |
|--|---|------|------------|---------------|----------|
| Exercise of warrants                           | - | -    | 165,000    | 413,000       | -        |
| Comprehensive income (loss):                   |   |      |            |               |          |
| Net income (Restated - Note 2)                 | - | -    | -          | -             | -        |
| Foreign currency translation Adjustment        | - | -    | -          | -             | 4,000    |
| Total comprehensive income (Restated - Note 2) | - | -    | -          | -             | 4,000    |
| Balances at March 31, 2002 (Restated - Note 2) | - | \$ - | 20,018,000 | \$ 49,205,000 | \$ 4,000 |

See accompanying notes to consolidated financial statements.

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ITEM 1. FINANCIAL STATEMENTS (continued).

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

|   | THREE MONTHS ENDED MARCH 31, |                |
|---|------------------------------|----------------|
|   | 2002                         | 2001           |
|   | (Restated - Note 2)          |                |
| CASH FLOWS FROM OPERATING ACTIVITIES:                                       |                              |                |
| Net income (loss)   | \$ 132,000                   | \$ (1,098,000) |
| Adjustments to reconcile net loss to net cash used by operating activities: |                              |                |
| Depreciation and amortization   | 40,000                       | 59,000         |
| Gain on disposal of assets  | (16,000)                     | -              |
| Provision (benefit) for bad debts   | (4,000)                      | 96,000         |
| Provision for inventory excess and obsolescence                             | (4,000)                      | 5,000          |
| Changes in assets and liabilities:  |                              |                |
| Accounts receivable   | (242,000)                    | (334,000)      |
| Inventory   | (341,000)                    | 269,000        |
| Deferred charges on product shipped   | (232,000)                    | (212,000)      |
| Prepaid expenses and other assets   | (81,000)                     | (7,000)        |
| Accounts payable and accrued expenses                                       | (37,000)                     | 1,000          |
| Deferred revenue on product   | 132,000                      | 441,000        |
| Customer deposits   | (203,000)                    | 15,000         |
| Net cash used in operating activities                                       | (856,000)                    | (765,000)      |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                       |                              |                |
| Additions to property, plant and equipment                                  | (72,000)                     | (12,000)       |
| Proceeds from the sale of property, plant and equipment                     | -                            | 2,261,000      |
| Net cash (used in) provided by investing activities                         | (72,000)                     | 2,249,000      |

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CASH FLOWS FROM FINANCING ACTIVITIES:

|  |           |             |
|--|-----------|-------------|
| Payments on mortgage note payable                    | -         | (1,195,000) |
| Proceeds from exercise of stock options and warrants | 723,000   | 243,000     |
|  | -----     | -----       |
| Net cash provided by (used in) financing activities  | 723,000   | (952,000)   |
|  | -----     | -----       |
| Effect of exchange rate changes on cash              | 4,000     | -           |
|  | -----     | -----       |
| (Decrease) increase in cash and cash equivalents     | (201,000) | 532,000     |
| Cash and cash equivalents at beginning of period     | 2,670,000 | 2,002,000   |
|  | -----     | -----       |
| Cash and cash equivalents at end of period           | 2,469,000 | 2,534,000   |
|  | =====     | =====       |

SUPPLEMENTAL CASH FLOW DISCLOSURE:

|  |           |           |
|--|-----------|-----------|
| Cash paid during the period for interest | \$ 13,000 | \$ 61,000 |
|  | =====     | =====     |
| Cash paid during the period for taxes    | \$ 2,000  | \$ -      |
|  | =====     | =====     |

NONCASH FINANCING ACTIVITIES:

|   |              |       |
|---|--------------|-------|
| Debt incurred in connection with acquisition of production facility | \$ 1,000,000 | \$ -  |
|   | -----        | ----- |
|   | \$ 1,000,000 | \$ -  |
|   | =====        | ===== |

See accompanying notes to consolidated financial statements.

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The unaudited consolidated financial statements included herein have been prepared on a basis consistent with the restated December 31, 2001 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 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, 2001 and notes thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2002, as amended by Amendment No.1 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. As of March 31, 2002, \$1.1 million of net assets were located outside of the United States, in BIOLASE Europe.

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The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 be based on amounts that differ materially from those estimates.

The results of operations for the three months ended March 31, 2002 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, 2002 and December 31, 2001 and the three months ended March 31, 2002 and 2001 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, 2002 decreased by \$219,000, our gross profit decreased by \$8,000 and our net income increased by \$13,000 (\$0.00 per fully diluted share). For the three months ended March 31, 2001, our net revenue decreased by \$440,000 our gross profit decreased by \$282,000 and our net loss increased by \$326,000 (\$0.02 per fully diluted share).

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The statements of operations have been restated as follows:

|                             | THREE MONTHS ENDED<br>MARCH 31, 2002 |              | THREE MONTHS ENDED<br>MARCH 31, 2001 |                |
|-----------------------------|--------------------------------------|--------------|--------------------------------------|----------------|
|                             | AS REPORTED                          | RESTATE      | AS REPORTED                          | RESTATE        |
| Net sales.....              | \$ 5,230,000                         | \$ 5,011,000 | \$ 3,083,000                         | \$ 2,643,000   |
| Cost of sales.....          | 2,109,000                            | 1,898,000    | 1,354,000                            | 1,196,000      |
| Operating expenses.....     | 2,988,000                            | 2,967,000    | 2,431,000                            | 2,475,000      |
| Income from operations..... | 133,000                              | 162,000      | (702,000)                            | (1,028,000)    |
| Net income.....             | \$ 119,000                           | \$ 132,000   | \$ (772,000)                         | \$ (1,098,000) |
| Net income per share:       |                                      |              |                                      |                |
| Basic.....                  | \$ 0.01                              | \$ 0.01      | \$ (0.04)                            | \$ (0.04)      |



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Diluted..... \$ 0.01 \$ 0.01 \$ (0.04) \$ (0

The balance sheets have been restated as follows:

|                           | MARCH 31, 2002 |            | DECEMBER 31, 2001 |         |
|---------------------------|----------------|------------|-------------------|---------|
|                           | AS REPORTED    | RESTATE    | AS REPORTED       | RESTATE |
| Working capital.....      | \$ 1,551,000   | \$ 630,000 | \$ 1,135,000      | \$ 201, |
| Total assets.....         | 9,151,000      | 9,988,000  | 7,561,000         | 8,253,  |
| Stockholders' equity..... | 2,425,000      | 1,504,000  | 1,579,000         | 645,    |

NOTE 3 - SUPPLEMENTARY BALANCE SHEET INFORMATION

|                 | MARCH 31, 2002 | DECEMBER 31, 2001 |
|-----------------|----------------|-------------------|
| INVENTORIES     |                |                   |
| Materials       | \$ 990,000     | \$ 1,020,000      |
| Work-in-process | 760,000        | 656,000           |
| Finished goods  | 482,000        | 211,000           |
| Inventories     | \$ 2,232,000   | \$ 1,887,000      |

|                                    | MARCH 31, 2002 | DECEMBER 31, 2001 |
|------------------------------------|----------------|-------------------|
| PROPERTY, PLANT AND EQUIPMENT, NET |                |                   |
| Building                           | \$ 1,000,000   | \$ -              |
| Leasehold improvements             | 57,000         | 54,000            |
| Equipment and computers            | 508,000        | 448,000           |
| Furniture and fixtures             | 212,000        | 202,000           |
| Total                              | 1,777,000      | 704,000           |
| Less accumulated depreciation      | (346,000)      | (312,000)         |
| Property, plant and equipment, net | \$ 1,431,000   | \$ 392,000        |

|                               | MARCH 31, 2002 | DECEMBER 31, 2001 |
|-------------------------------|----------------|-------------------|
| PATENTS AND TRADEMARKS, NET   |                |                   |
| Patents                       | \$ 112,000     | \$ 112,000        |
| Trademarks                    | 69,000         | 69,000            |
| Total                         | 181,000        | 181,000           |
| Less accumulated amortization | (96,000)       | (90,000)          |
| Patents and trademarks, net   | \$ 85,000      | \$ 91,000         |

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

|                      | MARCH 31, 2002 | DECEMBER 31,<br>2001 |
|----------------------|----------------|----------------------|
|                      | -----          | -----                |
| ACCRUED LIABILITIES  |                |                      |
| Payroll and benefits | \$ 648,000     | \$ 652,000           |
| Warranty expense     | 506,000        | 561,000              |
| Other                | 701,000        | 763,000              |
|                      | -----          | -----                |
| Accrued liabilities  | \$ 1,855,000   | \$ 1,976,000         |
|                      | =====          | =====                |

#### NOTE 4 - ACCOUNTS RECEIVABLE

At March 31, 2002 our allowance for uncollectible accounts was \$100,000, principally as a reserve for accounts receivable on sales to a foreign distributor. This amount reflects a reduction of \$95,000 from our allowance at December 31, 2001 due to previously unanticipated payments received from that distributor.

#### NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

In January 2002, our wholly owned subsidiary, BIOLASE Europe, purchased a production facility in Germany with ten employees. The stated purchase price is \$1,000,000. We are required to pay the first installment of the purchase price by May 31, 2002. The amount of the first installment will be determined by us, but must be between \$300,000 and \$500,000. Thereafter, we must pay \$500,000 by April 1, 2003 and the balance of the purchase price, if any, must be paid by December 1, 2003. We are currently negotiating with a third party for that party to pay all or a portion of the first installment in exchange for certain rights that we would grant to the third party. In the event we do not reach an agreement with this third party, then both the purchase price and the initial installment will be reduced by \$150,000.

#### NOTE 6 - LINE OF CREDIT

At March 31, 2002, we had approximately \$1,792,000 outstanding under a revolving credit agreement with a bank. The agreement provides for borrowings up to \$2,500,000 for financing inventories and is collateralized by substantially all accounts receivable and inventories. The interest rate is based upon LIBOR plus 0.5% at the time of any borrowings. At March 31, 2002, the interest rate on the outstanding balance was 2.4%. The effective interest rate for the quarter ended March 31, 2002, including the amortization of the fair value of warrants in connection with issuing our line of credit was 5.91%. The revolving credit agreement expires on January 31, 2003. The maximum available under the line will decrease to \$1,800,000 on May 1, 2002.

#### NOTE 7 - COMMITMENTS AND CONTINGENCIES

In March 2001, we entered into a sale-leaseback transaction in which we sold and leased back our manufacturing facility. The result of the sale was a \$316,000 gain, which has been deferred and is being amortized over the five-year 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

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March 31, 2002 for each of the periods ending December 31 are as follows:

|                   |    |           |
|-------------------|----|-----------|
| Remainder of 2002 | \$ | 199,000   |
| 2003              |    | 270,000   |
| 2004              |    | 261,000   |
| 2005              |    | 249,000   |
| 2006              |    | 61,000    |
|                   |    | -----     |
| Total             | \$ | 1,040,000 |
|                   |    | =====     |

### NOTE 8 - EARNINGS PER SHARE

We compute basic earnings (loss) per share by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares outstanding. We compute diluted earnings per share by dividing net income by the weighted average number of shares outstanding including potentially dilutive securities

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

such as stock options and warrants. Potential common shares 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.

|   | THREE MONTHS ENDED MARCH 31, |                |
|---|------------------------------|----------------|
|   | 2002                         | 2001           |
|   | -----                        | -----          |
| Net income (loss)                             | \$ 132,000                   | \$ (1,098,000) |
|   | =====                        | =====          |
| Weighted average shares outstanding - basic   | 19,791,000                   | 19,430,000     |
| Dilutive effect of stock options and warrants | 1,613,000                    | -              |
|   | -----                        | -----          |
| Weighted average shares outstanding - diluted | 21,404,000                   | 19,430,000     |
|   | =====                        | =====          |

### NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

At January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133) as amended by Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FAS 133. The adoption of FAS 133 did not have a material impact on our consolidated financial position or results of operations. Our derivative financial instruments under FAS 133 are discussed below.

All derivatives are recorded in our consolidated balance sheet at fair value. The estimated fair value of derivative financial instruments represents the amount required to enter into similar offsetting contracts with similar remaining maturities based on quoted market prices. Our foreign exchange forward contracts are not designated as hedges. Changes in the fair value of these derivatives are recorded in current earnings.

The notional amount of forward exchange contracts is the amount of foreign currency bought or sold at maturity. Notional amounts are indicative of the extent of our involvement in the various types and uses of derivative

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financial instruments and are not a measure of our exposure to credit or market risks through its use of derivatives.

Credit exposure for derivative financial instruments is limited to the amounts, if any, by which the counterparties obligations under the contracts exceed the obligations of us to the counterparties. Potential credit losses are minimized through careful evaluation of counterparty credit standing, selection of counterparties from a limited group of high-quality institutions and other contract provisions.

At March 31, 2002, derivative financial instruments comprise of foreign exchange forward contracts with notional amounts of \$702,000 and estimated fair value of \$5,000.

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

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

This Report contains forward-looking statements, which include, but are not limited to, statements concerning the need for additional capital, our ability to renegotiate our line of credit and to continue to achieve profitability, the market acceptance of our products, the competitive nature of and anticipated growth in our markets, and our projected revenues, expenses, gross profit and net income. These forward-looking statements are based on our current expectations, estimates and projections about our industry, and reflect management's beliefs and certain assumptions made by us based upon information available to us at the time of this Report. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations of these words or similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict, including those set forth under the heading "Risk Factors" below. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

You should read the following discussion and analysis in conjunction with the Consolidated Financial Statements and related Notes thereto contained elsewhere in this Report before deciding to invest in our company or to maintain or increase your investment. 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 ("SEC"), 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 with the SEC that discuss our business in greater detail.

#### 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,

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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, 2002 and December 31, 2001 and the three months ended March 31, 2002 and 2001 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, 2002 decreased by \$219,000, our gross profit decreased by \$8,000 and our net income increased by \$14,000 (\$0.00 per fully diluted share). For the three months ended March 31, 2001, our net revenue decreased by \$440,000 our gross profit decreased by \$282,000 and our net loss increased by \$326,000 (\$0.02 per fully diluted share).

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The statements of operations have been restated as follows:

|                             | THREE MONTHS ENDED<br>MARCH 31, 2002 |              | THREE MONTHS ENDED<br>MARCH 31, 2001 |          |
|-----------------------------|--------------------------------------|--------------|--------------------------------------|----------|
|                             | AS REPORTED                          | RESTATE      | AS REPORTED                          | RESTA    |
| Net sales.....              | \$ 5,230,000                         | \$ 5,011,000 | \$ 3,083,000                         | \$ 2,64  |
| Cost of sales.....          | 2,109,000                            | 1,898,000    | 1,354,000                            | 1,19     |
| Operating expenses.....     | 2,988,000                            | 2,967,000    | 2,431,000                            | 2,47     |
| Income from operations..... | 133,000                              | 162,000      | (702,000)                            | (1,02    |
| Net income.....             | \$ 119,000                           | \$ 132,000   | \$ (772,000)                         | \$ (1,09 |
| Net income per share:       |                                      |              |                                      |          |
| Basic.....                  | \$ 0.01                              | \$ 0.01      | \$ (0.04)                            | \$       |
| Diluted.....                | \$ 0.01                              | \$ 0.01      | \$ (0.04)                            | \$       |

The balance sheets have been restated as follows:

|                           | MARCH 31, 2002 |            | DECEMBER 31, 2001 |       |
|---------------------------|----------------|------------|-------------------|-------|
|                           | AS REPORTED    | RESTATE    | AS REPORTED       | RESTA |
| Working capital.....      | \$ 1,551,000   | \$ 630,000 | \$ 1,135,000      | \$ 20 |
| Total assets.....         | 9,151,000      | 9,988,000  | 7,561,000         | 8,25  |
| Stockholders' equity..... | 2,425,000      | 1,504,000  | 1,579,000         | 64    |

### OVERVIEW

BioLase Technology, Inc. is a medical technology company that designs, develops, manufactures and markets advanced dental, cosmetic and surgical products. We currently market two primary products. The Waterlase(TM) system,

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utilizing our patented Hydrokinetic(R) technology of combining water and laser energy, is a device which can be applied to the treatment of both hard and soft dental tissues. The LaserSmile(TM) system incorporates a diode semiconductor laser for a broad range of soft tissue and cosmetic procedures.

In January 2002, we received from the United States Food and Drug Administration ("FDA") clearance for the application of our Hydrokinetic technology to perform complete root canal therapy (EndoLase(TM)). In February 2002, we received FDA clearance for the use of Hydrokinetic technology to cut oral bone tissue (OsseoLase(TM)). We believe these clearances substantially broaden the application of our technology within the dental market.

We have patents and have received clearances from the FDA for applications in markets other than dentistry, such as dermatology. However, our current business plan is focused on the dental market because of the significant market potential and our leading position in that market.

In January we acquired a production facility in Germany to strengthen our international sales plan in Europe and neighboring regions. This transaction significantly increased our overall manufacturing capacity and provided us with an improved ability to service European sales.

### 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

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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

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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 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.

**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.

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### RESULTS OF OPERATIONS

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

THREE MONTHS ENDED

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|                               | MARCH 31,<br>(Restated - Note 2) |         |
|-------------------------------|----------------------------------|---------|
|                               | 2002                             | 2001    |
| Net sales                     | 100.0%                           | 100.0%  |
| Cost of sales                 | 37.9                             | 45.2    |
| Gross profit                  | 62.1                             | 54.8    |
| Other income                  | 0.3                              | -       |
| Operating expenses:           |                                  |         |
| Sales and marketing           | 41.4                             | 62.1    |
| General and administrative    | 9.4                              | 18.0    |
| Engineering and development   | 8.4                              | 13.6    |
| Total operating expenses      | 59.2                             | 93.7    |
| Income (loss) from operations | 3.2                              | (38.9)  |
| Non-operating income (loss)   | (0.6)                            | (2.7)   |
| Net income (loss)             | 2.6%                             | (41.6)% |

During the first fiscal quarter of 2002, demand for our products continued to increase when compared to the same period in previous years. Net sales for the three months ended March 31, 2002 were \$5.0 million, an increase of \$2.4 million or 90%, as compared with net sales of \$2.6 million for the three months ended March 31, 2001. The growth was attributable to strong domestic increase in unit volume of both our Waterlase and LaserSmile systems. The addition of the cosmetic tooth whitening application in the third quarter of last year was a key factor in the increase of LaserSmile sales. International sales were not a factor in sales growth for the quarter. Sales of consumables increased to 4% of total sales this quarter compared to 2% in the first quarter of 2001. Consistent with the seasonality we have experienced in prior years, sales for the first quarter were lower than the preceding fourth quarter despite the overall increasing trend in sales.

Gross profit for the three months ended March 31, 2002 increased 115% to \$3.1 million as a result of the increase in sales and consequent greater absorption of fixed manufacturing costs. Gross margin for the quarter was 62% compared to 55% for the quarter ended March 31, 2001. Increased manufacturing efficiencies contributed to the increase in gross margin, offset partially by start-up costs for our German facility and the addition of resources to manufacturing in anticipation of greater production.

Other Income. The gain on sale of assets of for the three months ended March 31, 2002 increased \$16,000 primarily related to two transactions. In 2000, we purchased our San Clemente manufacturing facility and offices in order to avoid moving our operations. In 2001, we sold the facility and leased it back for a five-year term with an additional five year option, resulting in a gain of \$316,000. We are recognizing that gain for accounting purposes over the term of the lease.

Operating expenses were 59% of net sales for the three months ended March 31, 2002, compared to 94% for the first quarter of 2001. The decrease in operating expenses as a percentage of sales was due to the gain in sales relative to the change in costs required to support the increased level of operations. In terms of absolute dollars, operating expenses for the three months ended March 31, 2002 increased \$0.5 million or 20% to \$3.0 million. Increases relate primarily to higher sales and marketing costs.

Sales and marketing expenses increased 26% to \$2.1 million at March 31,



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2002 compared to \$1.6 million for the quarter ended March 31, 2001. Primary reasons for the increase are labor increases due to growth in the size of the sales force, commission expense on a higher level of sales and an increase in the scope of our nationwide seminar marketing program for 2002.

General and administrative expenses remained constant with the prior year quarter. However, there were increases due principally to higher labor expense and consulting fees plus start-up expenses related to our German

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subsidiary, increase in insurance rates and the cost of infrastructure needed to support the growth of the business, which were offset by a reduction in the allowance for doubtful accounts.

Engineering and development expenses increased \$59,000 or 16% to \$419,000 for the first quarter of 2002 compared to \$360,000 for the first quarter of 2001. Increased expenses primarily related to materials and consulting fees on new product development.

Net interest expense decreased from \$70,000 in the first quarter of 2001 to \$30,000 in the first quarter of 2002 as a result of the payoff of the mortgage note payable on our manufacturing facility in 2001.

### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2002, we had \$630,000 in working capital. Our principal source of liquidity at March 31, 2002 consists of our cash balance of \$2.5 million. For the quarter, significant sources of cash were from the exercise of stock options and warrants of \$723,000. These sources of cash were offset by increases in accounts receivable and inventory of \$583,000 and other working capital items totaling \$405,000.

Accounts receivable, net, increased to \$2.4 million at March 31, 2002 from \$2.2 million at December 31, 2001. The increase was due to the higher sales volume experienced in the first quarter for which the receivable will be collected in the second quarter of 2002. We believe that the allowance for doubtful accounts at March 31, 2002 of \$100,000 is adequate to provide for anticipated losses on uncollectible amounts.

Inventories, net, increased to \$2.2 million at March 31, 2002 from \$1.9 million at December 31, 2001. The increase was due to increased production necessary to meet expected 2002 demand.

Our business continues to focus on the manufacturing and marketing of laser-based technologies the Waterlase(TM) and the LaserSmile(TM) laser systems. Financing the development of our products and our operations has been achieved principally through the private placements of common stock and the exercise of stock options and warrants, though we have experienced significant increased sales over the last two years.

In January 2002, our wholly owned subsidiary, BIOLASE Europe, purchased a production facility in Germany with ten employees for \$1,000,000. We are required to pay the first installment of the purchase price by May 31, 2002. The amount of the first installment will be determined by us, but must be between \$300,000 and \$500,000. Thereafter, we must pay \$500,000 by April 1, 2003 and the balance of the purchase price, if any, must be paid by December 1, 2003. We are currently negotiating with a third party for that party to pay all or a portion of the first installment in exchange for certain rights that we would grant to the third party. In the event we do not reach an agreement with this third

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party, then both the purchase price and the initial installment will be reduced by \$150,000.

The German facility, which is ISO 9001 certified, consists of two buildings equipped for laser production. This facility will substantially increase our production capacity. BIOLASE Europe also has a highly qualified technical staff experienced in laser principles and design, delivery systems, optics, technical service and field support. BIOLASE Europe will manufacture our products in Germany, provide direct support for our expanding international dealer network and contribute to our ongoing research and development of new products.

We have no other material commitments for capital expenditures as of March 31, 2002.

At March 31, 2002, we had \$1.8 million outstanding under a revolving credit agreement with a bank. The revolving credit agreement provides for borrowings of up to \$2.5 million for the financing of inventory and is collateralized by substantially all of our accounts receivable and inventories. The interest rate is computed based upon LIBOR plus 0.5%. The balance at December 31, 2001 was \$1.8 million and during the quarter, there were no draws or repayments. We do not intend to make any further borrowings under this line of credit in the immediate future. In May 2002, the maximum borrowings available under this line of credit will be reduced to \$1.8 million. The current revolving credit agreement expires on January 31, 2003, at which point we will be required either to pay any remaining balance of the credit facility or refinance the credit facility.

Our liquidity and cash requirements fluctuate based on the timing and extent of a number of factors. For instance, during periods of sales growth, net changes in assets and liabilities will tend to represent a use of cash

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because we will incur costs and expend cash in advance of receiving cash from our customers. We believe that our current cash balances plus cash to be generated from operations will be adequate to meet our debt service requirements, capital expenditures and sustain our operations through the end of fiscal 2002. In addition, during 2002, we expect that additional warrants expiring in 2002 will be exercised, generating up to an additional \$1.7 million from external sources. Should we require further capital resources in 2002, we would most likely address such requirement through a combination of product sales, sales of equity securities through private placements, and/or debt financing. If such additional debt or equity is needed, no assurances can be given that we would be able to obtain such additional capital resources. If unexpected events occur requiring us to obtain additional capital and we are unable to do so, we then might attempt to preserve our available resources by deferring the creation or satisfaction of various commitments, deferring the introduction of various products or entry into various markets, or otherwise scaling back our operations. If we were unable to raise such additional capital or defer certain costs as described above, such inability would have an adverse effect on our financial position, results of operations and cash flows.

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### RISK FACTORS

Before investing in our company or deciding to maintain or increase your

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investment, you should carefully consider the risks described below, in addition to the other information contained in this report and in our other filings with the SEC. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks actually occur, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

### We May Not Be Able to Continue or Increase Our Net Income in the Future, Which May Cause the Trading Price of Our Common Stock to Decline.

We may not be able to continue to achieve net income. Prior to the third quarter of 2001, we had not reached the break-even point as we transitioned from our research and development phase and began commercializing our technology. Even if we continue to achieve net income, we may not be able to increase net income on a quarterly or annual basis in the future. Our ability to achieve sustained or increased net income is, in turn, dependent on many of the other risk factors identified in this report below. If we are unable to continue or increase our net income in the future, we may not be able to successfully operate our business and our stock price may decline.

### We May Not Be Able to Secure Additional Financing to Meet Our Future Capital Needs.

Our line of credit expires on January 31, 2003. If we are unable to renew our line of credit at that time on acceptable terms, or at all, and we are required to repay the line of credit, absent sufficient cash flow from operations or the sale of securities, the diversion of resources for that purpose will adversely affect our operations and financial condition and our ability to achieve future growth in our net sales. In addition, during 2002 and 2003 all of our long-term debt will become due and payable. Unless we can generate sufficient cash flow from sustained profitability, we will continue to be dependent on the availability of external financing to meet our operating and capital needs, including the repayment of current debt obligations. We may not be able 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. If we raise additional funds by issuing debt, we may be subject to limitations on our operations, including limitations on the payment of dividends. Our inability to raise additional funds on a timely basis will make it difficult for us to achieve our business plan and will have a material adverse effect on our business, financial condition and results of operations.

### Our Quarterly Revenues 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 revenues 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 quarterly revenues 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 revenues and operating results include the factors described in the subheadings below as well as:

- . The evolving and varying demand for dental and medical lasers;
- . Our ability to develop, introduce, market and gain market acceptance of new products and product enhancements in a timely manner;

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- . Our ability to control costs;
- . The size, timing, rescheduling or cancellation of significant customer orders;
- . The introduction of new products by competitors;
- . 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;

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- . 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; and
- . General global economic and political conditions, including international conflicts and acts of terrorism.

In addition, a significant amount of our sales in any quarter may consist of sales through a single distributor. As a result, the timing of orders by this distributor may impact our quarter-to-quarter results. The loss of or a substantial reduction in orders from this distributor could seriously harm our business, financial condition and results of operations. Due to all of the factors listed above and the other risks discussed in this report, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of our future performance.

Our Business Depends on the Acceptance of Our Products, and It Is Uncertain Whether the Market Will Broadly Accept Our Products.

Our future success will depend on our ability to demonstrate to dentists and physicians the potential cost and performance advantages of our laser systems over traditional methods of treatment and, to a lesser extent, over competitive laser systems. Our products represent relatively new technologies in the dental market, and have not yet achieved widespread market acceptance. Factors that may inhibit mass adoption of laser technologies by dentists and physicians include the cost of the products, concerns about the safety, efficacy and reliability of lasers and the ability to obtain reimbursement of laser procedures under health plans. Current economic pressure may make dentists and physicians reluctant to purchase substantial capital equipment or invest in new technologies. The failure of medical 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 Depend on a Limited Number of Suppliers, and If We Cannot Secure Alternate Suppliers, Our Business May Be Harmed.

We purchase certain raw materials and components included in our products from a limited group of qualified suppliers, and we do not have long-term supply contracts with any of our key suppliers. Our growth and ability to meet customer demand depends in part on our ability to obtain timely deliveries of materials and components from our suppliers. Certain components of our products are currently available only from a single source or limited sources. Although we believe that alternate sources of supply are available for most of our single-sourced materials and components, a change in a single or limited source supplier, or an inability to find an alternate supplier, could create manufacturing delays, disrupt sales and cash flow, and harm our reputation, any of which could adversely affect our business, financial condition and results of operations.

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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 success will depend, in part, on our ability to obtain patent protection for our products and technology, to preserve our trade secrets and to operate without infringing the intellectual property of others. We rely on patents to establish and maintain proprietary rights in our technology and products. However, we cannot assure you that we will be able to obtain any further patents, that any of our proprietary rights will not be challenged, invalidated or circumvented, or that any such rights will provide a sustainable competitive advantage. Competitors may claim that we have infringed their current or future 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, in the event 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.

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We Have Significant International Sales and Are Subject to Risks Associated with Operating in International Markets.

In the past few years, international sales have comprised a significant portion of our net sales. Our international sales declined in the prior year, and political and economic conditions outside the United States could make it difficult for us to increase our international sales or to operate abroad. In addition, in February of this year we made a significant investment in a production facility in Germany to manufacture and service devices to be sold in Europe.

In the future, we intend to continue to pursue and expand our international business activities. International operations, including our production facility in Germany, are subject to many inherent risks, including:

- . Political, social and economic instability and increased security concerns;
- . Fluctuations in currency exchange rates;
- . Exposure to different legal standards;
- . 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;
- . Changes in tariffs;
- . Difficulties in staffing and managing international operations;
- . Longer collection periods and difficulties in collecting receivables from foreign entities; and
- . Potentially adverse tax consequences.

We believe that international sales will continue to represent a significant portion of our net sales, and that continued growth and

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profitability may require further expansion of our international operations. A substantial percentage of our international sales are denominated in the local currency. As a result, an increase in the relative value of the dollar could make our products more expensive and potentially less price competitive in international markets. Other than a forward contract to offset the risk related to the amounts payable for the German production facility, we do not currently engage in any transactions as a hedge against risks of loss due to foreign currency fluctuations. Any of these factors may adversely affect our future international sales and, consequently, affect our business, financial condition and operating results.

If We Are Not Successful In Generating Revenue From Our German Production Facility, Our Business And Financial Condition May Be Materially Adversely Affected.

In January 2002, we committed to invest a significant amount of our available cash in purchasing a German production facility with ten employees and various contracts held by the facility. The production facility is a new operation and we will face significant challenges in integrating it with our existing business and operations, including but not limited to the following:

- . entering into service agreements for devices sold in Europe;
- . retraining existing employees in our operations, and hiring additional employees for the facility;
- . integrating the facility's operations with our existing operations; and
- . generating German facility revenue and achieving profitability.

The German facility has a very limited operating history upon which to assess whether it will be able to meet all of the challenges required to successfully operate and generate revenue. If we are not able to develop a successful operation with revenue and profits at the German facility, we will not receive the anticipated benefits of our investment in the German facility and our business, financial condition and results of operations would be materially and adversely affected.

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Product Liability Claims Against Us Could Be Costly and Could Harm Our Reputation.

The sale of dental and medical products involves the inherent risk of product liability claims against us. While we currently maintain product liability insurance coverage in an amount that we believe is adequate for our level of sales, this insurance is expensive, is subject to various coverage exclusions and may not be obtainable in the future on terms acceptable to us, or at all. We do not know whether claims against us, if any, with respect to our products will be successfully defended or whether our insurance will be sufficient to cover liabilities resulting from such claims.

Rapid Changes in Technology Could Harm the Demand for Our Products or Result in Significant Additional Costs.

The markets in which our laser products compete are subject to rapid technological change, evolving industry standards, changes in the regulatory environment, frequent new device and pharmaceutical introductions and evolving dental and surgical techniques. These changes could render our products noncompetitive 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

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customer in terms of patient service 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 have in the past experienced delays in product development. We cannot assure you that we will successfully identify new product opportunities, be financially or otherwise capable of the research and development to bring new products to market in a timely manner or that product and technologies developed by others will not render our products obsolete.

### We May Not Be Able to Compete Successfully Against Our Current and Future Competitors.

Our products compete with those of a number of foreign and domestic companies, including those 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. Some of our competitors have greater financial, technical, marketing or other resources than us. This may allow them to respond more quickly to new or emerging technologies and to devote greater resources to the 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 technology changes in laser products and methods could cause commoditization of such products, require price discounting or otherwise adversely affect our gross margins.

### Changes in Government Regulation or the Inability to Obtain Necessary Government Approvals Could Harm Our Business.

Our products are subject to extensive government regulation, both in the United States and other countries. To clinically test, manufacture and market products for human diagnostic and therapeutic use, we must comply with regulations and safety standards set by the U.S. Food and Drug Administration and comparable state and foreign agencies. Generally, products must meet regulatory standards as safe and effective for their intended use prior to being marketed for human applications. The clearance process is expensive, time-consuming and uncertain. The failure to receive 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.

### 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 then bill various third party payors, such as government programs or private insurance plans, for the procedures conducted using these products. In the United States third party payors review and frequently challenge the prices charged for medical services. In many foreign countries, the prices are predetermined through government regulation. Payors may deny coverage and reimbursement if they determine that the procedure was not medically necessary (for example, cosmetic) or that the device used in the procedure was investigational. We believe that most of the procedures being performed with our

current products generally have been reimbursed, with the exception of cosmetic applications such as tooth whitening. The inability to obtain reimbursement for

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services using our products could deter dentists and physicians 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 would act as disincentives for capital investments by dental and medical professionals and could have an adverse effect on our business, financial condition and results of operations.

### 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 Jeffrey W. Jones, our Chief Executive Officer, Edson J. Rood, our Chief Financial Officer, Ioana Rizoiu, our Vice President of Clinical Research, and Keith Bateman, our Vice President of Global Sales. We do not have employment agreements with any of our key employees, other than with Mr. Jones, whose employment agreement was renewed in January 2002 for an additional two-year term.

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 employees, particularly development engineers, is intense. We may not be able 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.

### Potential Future Acquisitions Could Have Unintended Negative Consequences Which Could Harm Our Business and Cause Our Stock Price to Decline.

We may consider pursuing acquisitions of businesses, products or technologies in the future as a part of our growth strategy. 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 materially and adversely affect 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 of amounts related to deferred compensation, goodwill and 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. In the event we do pursue any acquisitions, it is possible that we may not realize the anticipated benefits from such acquisitions.

### Our Common Stock Price Has Been Volatile, Which Could Result in Substantial Losses for Individual Stockholders.

Our common stock is currently traded on the Nasdaq Small Cap Market and has only limited daily trading volume. The trading price of our common stock has been and may continue to be volatile. The market for technology companies, in particular, has, from time to time, experienced extreme volatility that often



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has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may significantly affect the trading price of our common stock, regardless of our actual operating performance. For example, the closing per share sale price of our common stock fluctuated from \$7.00 to \$1.03 over the course of 2001 despite steady improvement in our financial performance. On August 9, 2001, the closing sale price of our common stock declined 12% from \$5.87 per share on volume of approximately 900,000 shares, absent any news about or announcements by us. The trading price of our common stock could be affected by a number of factors, including, but not limited to, changes in expectations of our future performance, changes in estimates by securities analysts (or failure to meet such estimates), quarterly fluctuations in our revenue and financial results and a variety of risk

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factors, including the ones described elsewhere in this report. Periods of volatility in the market price of a company's securities sometimes result in securities class action litigation. If this were to happen to us, such litigation would be expensive and would divert management's attention. In addition, with only a limited public market for our stock, it would be difficult to sell a significant amount of our stock, which could cause a significant decline in the trading price of our stock. If our stock price drops below \$1.00 per share for an extended period of time or we are otherwise unable to satisfy the continued listing requirements of the Nasdaq Small Cap Market, our shares could be delisted from the Nasdaq Small Cap Market and the marketability, liquidity and price of our common stock would be adversely affected.

We are exposed to Risks Associated with the Recent Worldwide Economic Slowdown and Related Uncertainties.

Concerns about decreased consumer confidence, reduced corporate profits and capital spending, and recent international conflicts and terrorist and military activity have resulted in a downturn in economic conditions, both domestically and internationally. These unfavorable economic conditions could ultimately cause a slowdown in customer orders, an increase in the number of cancellations and the rescheduling of backlog, if any. In addition, recent political and social turmoil related to international conflicts and terrorist acts may put further pressure on economic conditions in the U.S. and worldwide. 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 be materially and adversely affected.

Future Sales of Our Common Stock Could Affect the Stock Price.

If our stockholders sell substantial amounts of our common stock, including shares issued on the exercise of options and warrants, in the public market, the market price of our common stock could fall. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. As of March 31, 2002, we had 20,018,000 shares of common stock outstanding. All of these shares, other than shares held by affiliates, are freely tradable.

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 a third 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

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of our common stock.

Our certificate of incorporation authorizes the issuance of up to 1,000,000 shares of "blank check" preferred stock, which will have terms as may be determined from time to time by our Board of Directors. Accordingly, our Board of Directors may, without obtaining stockholder approval, issue preferred stock with terms, which could have preference over and adversely affect the rights of the holders of common stock. This issuance may make it more difficult for a third party to acquire a majority of our outstanding voting stock. We are also subject to the Delaware anti-takeover laws, which may prevent, delay or impede a merger or takeover of our company, and we have not opted out of the provisions of such laws through either our certificate of incorporation or our bylaws.

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 the event that a third 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. The mere existence of a stockholder rights plan often delays or makes a merger, tender offer or proxy contest more difficult. The existence of these features could prevent others from seeking to acquire shares of our common stock in transactions at premium prices.

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### PART II - OTHER INFORMATION

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

##### (a) EXHIBITS

- 3.1 Restated Certificate of Incorporation, as Amended.  
Incorporated by reference to the Registrant's Annual Report on Form 10-K filed on April 14, 1994
- 3.2 Amended and Restated Bylaws. Incorporated by reference to the Registrant's Quarterly Report on Form 10-QSB filed on September 15, 1995.
- 10.1+ Employment Offer Letter dated January 8, 1999 from Jeffrey W. Jones, the Registrant's CEO, to Keith G. Bateman, the Registrant's Vice President, Global Sales. (1)
- 10.2 Employment Agreement dated January 1, 2002 between the Registrant and Jeffrey W. Jones. (1)
- 10.3+ Asset Purchase Agreement, dated January 29, 2002, between Asclepion-Meditec AG and the Registrant's subsidiary, BIOLASE Europe GmbH. (1)
- 10.4 Agreement for the Purchase of a Built-Up Property, dated January 29, 2002, between Asclepion-Meditec AG and the Registrant's subsidiary, BIOLASE Europe GmbH. (1)
- 10.5+ Agreement, dated January 29, 2002, between Asclepion-Meditec AG and the Registrant's subsidiary, BIOLASE Europe GmbH. (1)
- 31.1 Certification of Jeffrey W. Jones Pursuant to Rule 13a-14(a)

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and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended. (2)

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. (2)

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 (2)

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 (2)

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+ Confidential treatment has been requested for certain confidential portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934. In accordance with Rule 24b-2, these confidential portions have been omitted from this exhibit and filed separately with the SEC.

- (1) Previously filed with the original Quarterly Report on Form 10-Q for the period ended March 31, 2002.
- (2) Filed herewith.
- (b) REPORTS ON FORM 8-K

None

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### 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.,  
(Registrant)

By: /s/ Edson J. Rood

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

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