BIOLASE TECHNOLOGY INC
Form 10-Q/A
December 16, 2003
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 2)

(Mark One)

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

For the quarterly period ended September 30, 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 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 x No ¨.

Number of shares outstanding of the registrant s common stock, $.001 par value, as of November 4, 2002: 20,047,448.

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BIOLASE TECHNOLOGY, INC.

AMENDMENT NO. 2 TO QUARTERLY REPORT ON FORM 10-Q/A

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

EXPLANATORY NOTE

The purpose of this Amendment No. 2 on Form 10-Q/A is to re-file new certifications required under the Sarbanes-Oxley Act of 2002. The attached certifications in Exhibits 31.1, 31.2, 32.1 and 32.2 replace those filed on September 17, 2003 in Amendment No. 1 on Form 10-Q/A for the quarterly period ended September 30, 2002. The contents of Amendment No. 1 are repeated in this filing because that is required when filing the new certifications. Except as noted below, the contents of Amendment No. 1, including the Introductory Note, numbers, text and all other information, are repeated verbatim in this filing and have not changed from Amendment No. 1 filed on September 17, 2003. The only changes are the new certifications required under Section 302 of the Sarbanes-Oxley Act of 2002 (Exhibits 31.1 and 31.2) and corresponding changes to Item 4 of Part I, and the new certifications under Section 906 of that Act (Exhibits 32.1 and 32.2).

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PART I. FINANCIAL INFORMATION

* 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 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 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 September 30, 2002 and December 31, 2001, and for each of the three and nine months ended September 30, 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 the amended 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)

	September 30, 2002	December 31, 2001
		(Restated Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,920,000	$ 2,670,000
Accounts receivable, less allowance of $173,000 and $108,000 in 2002 and 2001, respectively	3,686,000	2,182,000
Inventories, net of reserves of $354,000 and $232,000 in 2002 and 2001, respectively	2,344,000	1,887,000
Deferred charges on product shipped	781,000	605,000
Prepaid expenses and other current assets	822,000	260,000
Total current assets	10,553,000	7,604,000
Property, plant and equipment, net	1,597,000	392,000
Patents and trademarks, net	73,000	91,000
Other assets	186,000	166,000
Total assets	$ 12,409,000	$ 8,253,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Line of credit	$ 1,792,000	$ 1,792,000
Accounts payable	1,338,000	1,656,000
Accrued liabilities	2,791,000	1,976,000
Customer deposits	261,000	290,000
Deferred revenue on product shipped	2,317,000	1,626,000
Deferred gain on sale of building, current portion	63,000	63,000
Current portion of long-term debt	343,000	
Total current liabilities	8,905,000	7,403,000
Deferred gain on sale of building	158,000	205,000
Long-term debt	800,000	
Total liabilities	9,863,000	7,608,000
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 20,034,000 shares in 2002 and 19,734,000 shares in 2001	20,000	20,000

Additional paid-in capital	49,224,000	48,462,000
Accumulated other comprehensive loss	(27,000)	
Accumulated deficit	(46,671,000)	(47,837,000)
Total stockholders equity	2,546,000	645,000
Total liabilities and stockholders equity	$ 12,409,000	$ 8,253,000

See accompanying notes to consolidated financial statements.

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BIOLASE TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended September 30, (Restated Note 2)		Nine Months Ended September 30, (Restated Note 2)	
	2002	2001	2002	2001
Net sales	$ 6,859,000	$ 3,970,000	$ 19,134,000	$ 11,326,000
Cost of sales	2,742,000	1,594,000	7,569,000	4,663,000
Gross profit	4,117,000	2,376,000	11,565,000	6,663,000
Other income	15,000	32,000	47,000	32,000
Operating expenses:				
Sales and marketing	2,619,000	1,740,000	7,255,000	5,215,000
General and administrative	739,000	572,000	2,072,000	1,535,000
Engineering and development	360,000	340,000	1,148,000	1,064,000
Total operating expenses	3,718,000	2,652,000	10,475,000	7,814,000
Income (loss) from operations	414,000	(244,000)	1,137,000	(1,119,000)
Gain (loss) on foreign currency transactions	(5,000)		14,000	
Gain on forward exchange contract	1,000		102,000	
Interest income	6,000	10,000	13,000	23,000
Interest expense	(34,000)	(22,000)	(100,000)	(131,000)
Net income (loss)	$ 382,000	$ (256,000)	$ 1,166,000	$ (1,227,000)
NET INCOME (LOSS) PER SHARE:				
Basic	$ 0.02	$ (0.01)	$ 0.06	$ (0.06)
Diluted	$ 0.02	$ (0.01)	$ 0.05	$ (0.06)
SHARES USED IN COMPUTING NET INCOME (LOSS) PER SHARE:				
Basic	20,033,000	19,655,000	19,878,000	19,454,000
Diluted	21,215,000	19,655,000	21,288,000	19,454,000

See accompanying notes to consolidated financial statements.

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BIOLASE TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
	2002	2001
	(Restated	Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,166,000	$ (1,227,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Issuance of common stock and warrants for earned services		15,000
Depreciation and amortization	128,000	126,000
Gain on disposal of assets	(47,000)	(27,000)
Gain on foreign currency translation	(102,000)	
Provision (benefit) for bad debts	(220,000)	120,000
Provision for inventory excess and obsolescence	(4,000)	108,000
Changes in assets and liabilities:		
Accounts receivable	(1,284,000)	(604,000)
Inventory	(453,000)	(717,000)
Deferred charges on product shipped	(176,000)	(375,000)
Prepaid expenses and other assets	(480,000)	(95,000)
Accounts payable and accrued expenses	497,000	634,000
Deferred revenue on product shipped	691,000	768,000
Customer deposits	(29,000)	25,000
Net cash used in operating activities	(313,000)	(1,249,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(175,000)	(101,000)
Additions to patents and licenses		(10,000)
Proceeds from the sale of property, plant and equipment		2,261,000
Net cash (used in) provided by investing activities	(175,000)	2,150,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on mortgage note payable		(1,195,000)
Proceeds from exercise of stock options and warrants	762,000	692,000
Net cash provided by (used in) financing activities	762,000	(503,000)
Effect of exchange rate changes on cash	(24,000)	
Increase in cash and cash equivalents	250,000	398,000
Cash and cash equivalents at beginning of period	2,670,000	2,002,000
Cash and cash equivalents at end of period	$ 2,920,000	$ 2,400,000

SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Cash paid during the period for interest	$ 37,000	$ 111,000
Cash paid during the period for taxes	$ 2,000	
NON-CASH FINANCING ACTIVITIES:		
Debt incurred in connection with acquisition of production facility	$ 1,000,000	$

See accompanying notes to consolidated financial statements.

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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, 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 nine months ended September 30, 2002 are not necessarily indicative of the results to be expected for the full fiscal year.

Certain amounts in the prior period consolidated financial statements have been reclassified to be consistent with the current period presentation.

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 September 30, 2002 and December 31, 2001 and the three and nine month periods ended September 30, 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. In addition, there was an error in our diluted net income per share for the nine months ended September 30, 2002 that resulted in a reduction of $0.01.

As a result of the restatement, our net revenue for the three and nine months ended September 30, 2002 decreased by $455,000 and $570,000, respectively, our gross profit decreased by $435,000 and $450,000, respectively, and our net income decreased by $390,000 ($0.02 per fully diluted share) and $394,000 ($0.01 per fully diluted share), respectively. For the three months and nine months ended September 30, 2001, our net revenue decreased by $706,000 and $768,000, respectively, and our gross profit decreased by $429,000 and $472,000, respectively. Our net income of $102,000 for the three months ended September 30, 2001 was converted to net loss of $256,000 (a difference of $358,000 or $0.02 per fully diluted share) and our net loss for the nine months ended September 30, 2001 increased by $409,000 ($0.02 per fully diluted share).

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The statements of operations have been restated as follows:

	Three Months Ended September 30, 2002		Three Months Ended September 30, 2001	
	As Reported	Restated	As Reported	Restated
Net sales	$ 7,314,000	$ 6,859,000	$ 4,676,000	$ 3,970,000
Cost of sales	2,762,000	2,742,000	1,871,000	1,594,000
Operating expenses	3,763,000	3,718,000	2,723,000	2,652,000
Income (loss) from operations	789,000	414,000	82,000	(244,000)
Net income (loss)	$ 772,000	$ 382,000	$ 102,000	$ (256,000)
Net income (loss) per share:				
Basic	$ 0.04	$ 0.02	$ 0.01	$ (0.01)
Diluted	$ 0.04	$ 0.02	$ 0.01	$ (0.01)

	Nine Months Ended September 30, 2002		Nine Months Ended September 30, 2001	
	As Reported	Restated	As Reported	Restated
Net sales	$ 19,704,000	$ 19,134,000	$ 12,094,000	$ 11,326,000
Cost of sales	7,689,000	7,569,000	4,959,000	4,663,000
Operating expenses	10,531,000	10,475,000	7,877,000	7,814,000
Income (loss) from operations	1,484,000	1,137,000	(742,000)	(1,119,000)
Net income (loss)	$ 1,560,000	$ 1,166,000	$ (818,000)	$ (1,227,000)
Net income (loss) per share:				
Basic	$ 0.08	$ 0.06	$ (0.04)	$ (0.06)
Diluted	$ 0.07	$ 0.05	$ (0.04)	$ (0.06)

The balance sheets have been restated as follows:

	September 30, 2002		December 31, 2001	
	As Reported	Restated	As Reported	Restated
Working capital	$ 2,976,000	$ 1,648,000	$ 1,135,000	$ 201,000
Total assets	11,420,000	12,409,000	7,561,000	8,253,000
Stockholders equity	3,874,000	2,546,000	1,579,000	645,000

NOTE 3 SUPPLEMENTARY BALANCE SHEET INFORMATION

Inventories:	September 30, 2002	December 31, 2001
Materials	$ 1,282,000	$ 1,020,000
Work-in-process	601,000	656,000
Finished goods	461,000	211,000

Inventories	$ 2,344,000	$ 1,887,000

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Property, Plant And Equipment, Net:	September 30, 2002	December 31, 2001
Land	$ 305,000	$
Building	837,000	
Leasehold improvements	87,000	54,000
Equipment and computers	605,000	448,000
Furniture and fixtures	218,000	202,000
Total	2,052,000	704,000
Less accumulated depreciation	(455,000)	(312,000)
Property, plant and equipment, net	$ 1,597,000	$ 392,000

Patents And Trademarks, Net:	September 30, 2002	December 31, 2001
Patents	$ 112,000	$ 112,000
Trademarks	69,000	69,000
Total	181,000	181,000
Less accumulated amortization	(108,000)	(90,000)
Patents and trademarks, net	$ 73,000	$ 91,000

Accrued Liabilities:	September 30, 2002	December 31, 2001
Payroll and benefits	$ 779,000	$ 652,000
Warranty expense	656,000	561,000
Other	1,356,000	763,000
Accrued liabilities	$ 2,791,000	$ 1,976,000

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

In January 2002, our wholly owned subsidiary, BIOLASE Europe, purchased a production facility in Germany with ten employees. We have recorded the transaction at the nominal or stated purchase price of $1,000,000 with the cost reflected in property, plant and equipment and the amount payable reflected in long-term debt. The purchase price could be less depending on the outcome of negotiations 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. The scheduled amount of the first installment is expected to be between $300,000 and $500,000. If we do not reach agreement with the third party, the stated purchase price and the first installment will be reduced from $1,000,000 to $850,000 and $300,000 to $150,000, respectively. Due to the ongoing negotiations with the third party, the due date of the first installment has been extended from October 31, 2002 to September 30, 2003. There is no assurance that we will be able to reach an agreement with the third party to pay any or all of the first installment. The final purchase price is payable in Euros at the conversion rate in effect on the acquisition date. In connection with this transaction, we entered into a forward contract to purchase approximately $700,000 of Euros at an exchange rate of 0.8591. Regardless of the amount of the initial installment, we are obligated to pay an additional $500,000 by April 1, 2003 and the balance of the purchase price, if any, by December 1, 2003.

NOTE 5 LINE OF CREDIT

At September 30, 2002, we had $1,792,000 outstanding under a revolving credit agreement with a bank. The agreement provides for borrowings up to $1,800,000 for financing inventories and is secured by substantially all of our accounts receivable and inventories. The interest rate is based upon LIBOR plus 0.5% at the time of any borrowings. At September 30, 2002, the interest rate on the outstanding balance was 2.3%. The effective interest rate for the quarter ended September 30, 2002 was 1.9%, including the amortization of the fair value of stock issued in connection with extending our line of credit. In June 2002, the expiration date of the credit agreement was extended from January 31, 2003 to July 31, 2003.

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NOTE 6 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 September 30, 2002 for each of the years ending December 31 are as follows:

Remainder of 2002	$ 68,000
2003	270,000
2004	261,000
2005	249,000
2006	61,000
Total	$ 909,000

On October 31, 2002, the Company 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, the Company alleges that AMT is infringing certain patents owned by the Company, which relate to the use of laser technology in the medical and dental fields. The Company s claims arise out of AMT s offer to sell and sale in the United States of a dental device that uses laser technology. In the lawsuit, the Company is seeking an award of monetary damages and injunctive relief against AMT. While the Company believes that the case is meritorious, there is no assurance that the Company will achieve a favorable outcome.

From time to time, we are involved in 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 7 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 stock options and warrants. Stock options totaling 304,000 and 287,000 were not included in the diluted earnings per share amounts for the three and nine months ended September 30, 2002, respectively, and 880,000 were not included in the nine months ended September 30, 2001, as their effect would have been anti-dilutive.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
		(Restated Note 2)		
Net income (loss)	$ 382,000	$ (256,000)	$ 1,166,000	$ (1,227,000)
Weighted average shares outstanding basic	20,033,000	19,655,000	19,878,000	19,454,000
Dilutive effect of stock options and warrants	1,182,000		1,410,000	
Weighted average shares outstanding diluted	21,215,000	19,655,000	21,288,000	19,454,000

NOTE 8 STOCKHOLDERS EQUITY

Components of comprehensive income (loss) were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
		(Restated Note 2)		
Net income (loss)	$ 382,000	$ (256,000)	$ 1,166,000	$ (1,227,000)
Foreign currency translation adjustment	(11,000)		(27,000)	
Comprehensive income (loss)	$ 371,000	$ (256,000)	$ 1,139,000	$ (1,227,000)

Components of accumulated other comprehensive loss were as follows:

	September 30, 2002	December 31, 2001
Cumulative translation adjustments	$ (27,000)	$
Accumulated other comprehensive loss	$ (27,000)	$

NOTE 9 DERIVATIVE FINANCIAL INSTRUMENTS

Our derivative financial instruments, consisting of forward exchange contracts in European Euros, are recorded at their fair value on the balance sheet, included in other assets. Our foreign exchange forward contracts are not designated as hedges pursuant to SFAS 133. Changes in the fair value of derivatives that do not qualify for hedge treatment must be recognized currently in earnings.

At September 30, 2002, we had outstanding derivative financial instruments comprised of foreign exchange forward contracts with notional amounts of $697,000 and a fair market value of $799,000 with the fair value gain of $102,000 recognized into net income for the nine months ended September 30, 2002.

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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

You should read the following discussion and analysis in conjunction with our Unaudited Consolidated Financial Statements and related Notes thereto contained elsewhere in this 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 Annual Report on Form 10-K/A for the year ended December 31, 2002, and our subsequent reports on Forms 10-Q/A 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, es may, will, should, would, potential, continue, and variations of these words or similar expressions. In addition, any statements that refer t 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 September 30, 2002 and December 31, 2001 and the three and nine month periods ended September 30, 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. In addition, there was an error in our diluted net income per share for the nine months ended September 30, 2002 that resulted in a reduction of $0.01.

As a result of the restatement, our net revenue for the three and nine months ended September 30, 2002 decreased by $455,000 and $570,000, respectively, our gross profit decreased by $435,000 and $450,000, respectively, and our net income decreased by $390,000 ($0.02 per fully diluted share) and $394,000 ($0.01 per fully diluted share), respectively. For the three months and nine months ended September 30, 2001, our net revenue decreased by $706,000 and $768,000, respectively, and our gross profit decreased by $429,000 and $472,000, respectively. Our net income of $102,000 for the three months ended September 30, 2001 was converted to net loss of $256,000 (a difference of $358,000 or $0.02 per fully diluted share) and our net loss for the nine months ended September 30, 2001 increased by $409,000 ($0.02 per fully diluted share).

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The statements of operations have been restated as follows:

	Three Months Ended September 30, 2002		Three Months Ended September 30, 2001	
	As Reported	Restated	As Reported	Restated
Net sales	$ 7,314,000	$ 6,859,000	$ 4,676,000	$ 3,970,000
Cost of sales	2,762,000	2,742,000	1,871,000	1,594,000
Operating expenses	3,763,000	3,718,000	2,723,000	2,652,000
Income (loss) from operations	789,000	414,000	82,000	(244,000)
Net income (loss)	$ 772,000	$ 382,000	$ 102,000	$ (256,000)
Net income (loss) per share:				
Basic	$ 0.04	$ 0.02	$ 0.01	$ (0.01)
Diluted	$ 0.04	$ 0.02	$ 0.01	$ (0.01)

	Nine Months Ended September 30, 2002		Nine Months Ended September 30, 2001	
	As Reported	Restated	As Reported	Restated
Net sales	$ 19,704,000	$ 19,134,000	$ 12,094,000	$ 11,326,000
Cost of sales	7,689,000	7,569,000	4,959,000	4,663,000
Operating expenses	10,531,000	10,475,000	7,877,000	7,814,000
Income (loss) from operations	1,484,000	1,137,000	742,000	(1,119,000)
Net income (loss)	$ 1,560,000	$ 1,166,000	$ (818,000)	$ (1,227,000)
Net income (loss) per share:				
Basic	$ 0.08	$ 0.06	$ (0.04)	$ (0.06)
Diluted	$ 0.07	$ 0.05	$ (0.04)	$ (0.06)

The balance sheets have been restated as follows:

	September 30, 2002		December 31, 2001	
	As Reported	Restated	As Reported	Restated
Working capital	$ 2,976,000	$ 1,648,000	$ 1,135,000	$ 201,000
Total assets	11,420,000	12,409,000	7,561,000	8,253,000
Stockholders equity	3,874,000	2,546,000	1,579,000	645,000

OVERVIEW

BioLase Technology, Inc. is a medical technology company that designs, develops, manufactures and markets advanced dental, cosmetic and surgical laser-based products. We currently market two primary products. The Waterlase system, utilizing our patented Hydrokinetic® 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 system incorporates a diode semiconductor laser for a broad range of soft tissue and cosmetic procedures. Most of our sales are derived from the shipment of the Waterlase system. Sales of the LaserSmile system commenced in the third quarter of 2001; prior to that time the LaserSmile system was sold as the Twilite soft tissue laser, which did not include the teeth whitening capability.

In January 2002, we received from the United States Food and Drug Administration Section 510(k) clearance for the application of our Hydrokinetic technology to perform complete root canal therapy (EndoLase). In February 2002, we received Food and Drug Administration Section 510(k) clearance for the use of Hydrokinetic technology to cut oral bone tissue (OsseoLase). We believe these clearances substantially broaden the application of our technology within the dental market.

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We have patents and have received clearances from the FDA for applications in markets other than dentistry, such as dermatology. However, we currently plan to focus our business on the dental market because of what we believe to be both the significant potential of the dental market and our leading position in that market.

In January 2002, we acquired a production facility in Germany to strengthen our international sales plan in Europe and neighboring regions. In our estimate, this transaction both 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 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 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.

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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.

RESULTS OF OPERATIONS

In the following discussion of the results of operations, unless otherwise noted, the three and nine month periods ended September 30, 2002 are compared to the three and nine-month periods ended September 30, 2001.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
		(Restated Note 2)		
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	40.0	40.2	39.6	41.2
Gross profit	60.0	59.8	60.4	58.8
Other income	0.2	0.8	0.2	0.3
Operating expenses:				
Sales and marketing	38.2	43.8	37.9	46.0
General and administrative	10.8	14.4	10.8	13.6
Engineering and development	5.2	8.6	6.0	9.4
Total operating expenses	54.2	66.8	54.7	69.0
Income (loss) from operations	6.0	(6.2)	5.9	(9.9)
Non-operating income (loss)	(0.5)	(0.3)	0.2	(1.0)

Net income (loss)	5.5%	(6.5)%	6.1%	(10.9)%

Comparing the results of operations between the current year and the corresponding periods in the prior year, the most significant change affecting operating results is the increase in sales. Third quarter 2002 sales increased 73% over third quarter 2001 and nine month 2002 sales have increased 69% over nine month 2001 sales.

Net Sales. Net sales for the three months ended September 30, 2002 were $6.9 million, an increase of $2.9 million as compared with net sales of $4.0 million for the three months ended September 30, 2001. Net sales for the nine months ended September 30, 2002 were $19.1 million, an increase of $7.8 million as compared with net sales of $11.3 million for the nine months ended September 30, 2001. The increase in both the three and nine month periods

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was resulted from increased number of units sold of our Waterlase and LaserSmile systems. Average selling price for these products in the periods being compared has not varied significantly.

International sales increased in the third quarter of 2002 to 26% of total sales compared to 19% in the same period last year. Year-to-date international sales have increased to 20% of total sales from 18% in the same period last year. Most of our international sales are made through distributors. In the three months ended June 30, 2002, we began making direct sales to dentists in Germany with the support of our current distributor there, as well as continuing to sell through distributor channels in Germany and elsewhere. In connection with increased credit uncertainty related to these direct sales, we have increased our allowance on accounts receivable from $100,000 at June 30, 2002 to $173,000 at September 30, 2002.

Gross Profit. Gross profit for the three months ended September 30, 2002 was $4.1 million or 60% of net sales, an increase of $1.7 million or 73% from gross profit of $2.4 million or 60% of net sales for the three months ended September 30, 2001. Gross profit for the nine months ended September 30, 2002 was $11.6 million or 60% of net sales, an increase of $4.9 million or 74% from gross profit of $6.7 million or 59% of net sales for the nine months ended September 30, 2001. 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 start-up costs for our German production and service facility and the addition of production resources to support anticipated sales growth.

Other Income. Other income was due to the gain on sale of assets for the three and nine months ended September 30, 2002 of $15,000 and $47,000, respectively, related to the sale and leaseback of our manufacturing facility in San Clemente, California in March 2001. This sale resulted in a gain of $316,000, which will be recognized over the remaining term of the lease expiring in 2006.

Operating Expenses. Operating expenses for the three and nine months ended September 30, 2002 were 54% and 55% of net sales, compared to 67% and 69% in the comparable periods of the prior year. Approximately 80% of the increase in operating expenses for the three and nine months ended September 30, 2002 are sales and marketing costs that have been incurred to generate the increase in net sales.

Sales and marketing expenses generally includes salaries and commissions for our direct sales force, advertising costs and expenses related to trade shows, conventions and seminars. Sales and marketing expense for the three months ended September 30, 2002 was $2.6 million or 38% of net sales, an increase of $879,000 or 50%, as compared with sales and marketing expense for the three months ended September 30, 2001 of $1.7 million or 44% of net sales. Sales and marketing expense for the nine months ended September 30, 2002 was $7.3 million or 38% of net sales, an increase of $2.0 million or 39%, as compared with sales and marketing expense for the nine months ended September 30, 2001 of $5.2 million or 46% of net sales. The increase in absolute dollars was primarily due to higher commission expense related to the increased sales and additional sales personnel in the United States, and to a lesser extent, the expansion of the scope of our nationwide seminar marketing program in 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 September 30, 2002 was $739,000 or 11% of net sales, an increase of $167,000 or 29%, as compared with general and administrative expense for the three months ended September 30, 2001 of $572,000 or 14% of net sales. General and administrative expense for the nine months ended September 30, 2002 was $2.1 million or 11% of net sales, an increase of $537,000 or 35%, as compared with general and administrative expense for the nine months ended September 30, 2001 of $1.5 million or 14% of net sales. The increase in absolute dollars for both the three and nine months was principally due to cumulative increases in the infrastructure needed to support the growth of our business including increases in the cost of regulatory compliance, administrative costs associated with the operations of BIOLASE Europe and increases in the allocated costs of insurance.

Engineering and development expenses generally include engineering personnel salaries, prototype supplies and contract services. Engineering and development expense for the three months ended September 30, 2002 was $360,000 or 5% of net sales, a slight increase of $20,000 or 6%, as compared with engineering and development expense for the three months ended September 30, 2001 of $340,000 or 9% of net sales. Engineering and

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development expense for the nine months ended September 30, 2002 was $1.1 million or 6% of net sales, an increase of $84,000 or 8%, as compared with engineering and development expense for the nine months ended September 30, 2001 of $1.1 million or 9% of net sales. The increase in absolute dollars for the nine months ended September 30, 2002 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.

In September we renewed our insurance policies for the period October 1, 2002 to September 30, 2003 for a total premium increase of $245,000, driven both by adverse pricing conditions in the insurance market and by the expected growth in our sales. The premium increase will raise operating expenses as it is amortized to expense during the coverage period.

Unrealized Gain on Forward Exchange Contract. In the nine months ended September 30, 2002, we recognized an unrealized gain on forward contracts of $102,000, due to the increase in the fair market value of our forward exchange contract as described more fully in Part I, Item 3 of this Report.

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 and our prior mortgage on the San Clemente facility. Interest income for the three and nine months ended September 30, 2002 was $6,000 and $13,000, a decrease of 40% and 44% from interest income of $10,000 and $23,000 in the comparable periods of the prior year, due principally to lower interest rates in 2002. Interest expense increased $12,000 or 55% from $22,000 to $34,000 for the three months ended September 30, 2002 compared to the same period last year as the result of the amortization of loan guarantee fees to interest expense over the renewal term of our line of credit in 2002. Interest expense decreased by $31,000 or 24% from to $100,000 for the nine months ended September 30, 2002, which reflects the repayment of the mortgage on our San Clemente facility upon its sale in March 2001 as well as lower interest rates on our line of credit in 2002

Provision for Income Tax. No provision for income tax was recognized for the three and nine-month periods ended September 30, 2002 due to the availability of net operating loss carry forwards. No income tax benefit was recognized in the three and nine-month periods ended September 30, 2001 as there was no assurance that the benefit of the net operating loss carry forwards would be realized. As of December 31, 2001, we had net operating loss carry forwards for federal and state purposes of approximately $37.8 million and $6.4 million, respectively, which began expiring in 2001.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2002, we had $1.6 million in net working capital as compared to $201,000 at December 31, 2001. Our principal source of liquidity at September 30, 2002 consisted of our cash balance of $2.9 million. Historically, we have financed the development of our products and our operations principally through the private placement of common stock and the exercise of stock options and warrants, though we have generated cash from net income excluding the effects of changes in working capital, in each of the last five quarters. For the nine months ended September 30, 2002, from December 1, 2002 to June 30, 2003 our primary sources of cash were from net income of $1.3 million, and the exercise of stock options and warrants of $762,000. These sources of cash were offset by increases in accounts receivable and inventory of $1.9 million, other working capital items and investments in property and equipment of $335,000. The net effect on cash of operating, investing and financing transactions for the nine months ended September 30, 2002 was an increase of $250,000. For further details see the Consolidated Statements of Cash Flows included in this Form 10-Q/A.

Accounts receivable, net increased 69% to $3.7 million at September 30, 2002 from $2.2 million at December 31, 2001. This increase was primarily due to the higher sales volume experienced in the third quarter of 2002. Inventories, net increased 24% to $2.3 million at September 30, 2002 from $1.9 million at December 31, 2001. This increase was primarily due to increased production estimates to meet expected 2002 sales demand.

In June 2002, we extended the expiration date of warrants to purchase 522,500 shares of common stock from September 30, 2002 to June 30, 2003. These warrants have an exercise price of $2.50 and were issued in connection with a private placement in 2000. In June 2002, we also extended the expiration date of warrants to

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purchase 50,000 shares of common stock from December 1, 2002 to June 30, 2003. These warrants have an exercise price of $3.00 per share and were issued in connection with previous annual extensions of our credit facility.

At September 30, 2002, we had $1.8 million outstanding under a $1.8 million revolving credit facility with a bank, the same amount that was outstanding at December 31, 2001. In June 2002, the expiration date on this credit facility was extended from January 31, 2003 to July 31, 2003, at which point we will be required to pay any remaining balance, refinance or replace the credit facility. We cannot assure you that we will be able to renew this facility in a timely manner, on acceptable terms or at all. The credit facility is collateralized by all of our accounts receivable and inventories.

In connection with the acquisition of our production facility in Germany, as discussed in Note 4 to the Unaudited Consolidated Financial Statements, BIOLASE Europe incurred a liability of $1,000,000 payable in Euros at the conversion rate of 0.8591. If we are not able to reach an agreement with a third party to pay all or part of the scheduled first installment of between $300,000 and $500,000, we will be required to make the initial installment of $150,000 (Euros 174,601) on September 30, 2003. We are required to make a payment of $500,000 (Euros 582,004) by April 1, 2003 and the balance, if any, by December 1, 2003. We are considering obtaining a long-term, secured real estate financing to refinance this debt as it matures, but we cannot assure you that such financing will be available in a timely manner, on acceptable terms or at all.

We had no material commitments for capital expenditures as of September 30, 2002.

Our liquidity and cash requirements fluctuate based on the timing and extent of a number of factors. For instance, during periods of recent sales growth, net changes in our assets and liabilities generally have represented a use of cash because we have incurred costs and expended cash in advance of receiving cash from our customers. 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. Should we require further capital resources in the next twelve months, we may address such requirement through the refinancing of debt and/or the sale of equity securities. If such additional debt or equity is needed, we cannot assure you that we would be able to obtain such additional capital resources in a timely manner, on acceptable terms, or at all. If we are unable to raise additional funds, we may have to defer the creation or satisfaction of various commitments, defer the introduction of various products or entry into various markets, or otherwise scale 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

Our business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this report and in our other filings with the Securities and Exchange Commission. Before deciding to invest in our company or to maintain or increase your 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 Securities and Exchange Commission. 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.

Dentists and Physicians May Be Slow to Adopt Laser Technologies, Which Could Limit the Market Acceptance of Our Products.

Although our sales have increased year over year, our products represent new technologies in the dental market and currently only represent a very small portion of the dental and medical markets. Our future success will depend on our ability to demonstrate to a broad spectrum of 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. Dental practitioners may be slow to adopt new technologies on a widespread basis. 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, the Amount of Sales in Any Period Could Be Adversely Affected.

We purchase certain 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 in acceptable quality from our suppliers. Certain components of our products are currently available only from a single source or limited sources, particularly specialized components used in our lasers. 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, would create manufacturing delays, disrupt sales and cash flow, and harm our reputation, any of which would adversely affect our business, financial condition and results of operations.

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 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 factors described in the subheadings below as well as:

variation in demand for our products, including variation due to seasonality;

our ability to 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;

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- 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;
- 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.

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 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. In addition, we have in the past experienced fluctuations due to seasonality. Typical of the seasonality we have experienced is that the first quarter is slower than average and the fourth quarter is stronger than average due to the buying patterns of dental professionals. Vacation schedules also have typically had an effect on sales in the third quarter. Since many of our costs are fixed in the short term, if we have a shortfall in sales, we may be unable to reduce our expenses quickly enough to avoid losses. Due to all of the factors listed above and other risks, some of which are discussed in this report, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of our future performance.

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

Our secured line of credit expires on July 31, 2003. If we are unable to renew or replace our secured line of credit at or before that time on acceptable terms, or at all, and we are required to repay the secured line of credit, absent sufficient cash flow from operations or the sale of securities, the diversion of resources for that purpose would adversely affect our operations and financial condition and our ability to achieve future growth in our net sales, and our security may be at risk. In addition, during 2003, all of our long-term debt related to the acquisition of our German production facility will become due and payable. It is our intention to refinance that debt as it matures with long-term secured real estate financing. There is no assurance that we will be able to obtain such financing on acceptable terms, in a timely manner, or at all. If we are unable to obtain such financing, we will have to repay our debt obligations with cash, which may adversely affect our operations and financial condition and our ability to achieve future growth in our net sales.

Although we believe that we can generate sufficient cash flow from sustained profitability to meet our future operating and capital needs, there is no assurance that we will be able to do so. If we are unable to do so, 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 or may be issued at a discount to the current 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, 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 plan and would have a material adverse effect on our business, financial condition and results of operations.

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. 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, as part of our plan to grow sales internationally, in January 2002, we purchased a production facility in Germany to manufacture and service devices to be sold in Europe.

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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:

- adverse changes in tariffs;
- political, social and economic instability and increased security concerns;
- fluctuations in currency exchange rates;
- longer collection periods and difficulties in collecting receivables from foreign entities;
- 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;
- difficulties in staffing and managing international 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 that continued growth and 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 and Increasing Sales from Our German Production Facility, Our Business and Financial Condition May Be Materially Adversely Affected.

In January 2002, we made a significant investment in purchasing a German production facility with ten employees. 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 and increasing German facility sales and achieving profitability.

Although the German facility has begun manufacturing our products and making installations for customers in Europe, it 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 and increase sales. If we are not able to generate and increase sales 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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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 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.

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.

We anticipate that 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 others. 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 competitors or that any of our patents will be held valid if subsequently challenged. In addition, other companies may independently develop similar products, duplicate our products or design products that circumvent our patents.

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.

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 would be successfully defended or whether our insurance would 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 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.

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

We compete with a number of foreign and domestic companies, including 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, 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 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 may bill various third party payors, such as government programs or private insurance plans, for all or a portion of 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. For the portion of dentists who rely on third party reimbursement and take assignment of patient insurance claims, 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 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 Jones, our Chief Executive Officer, Edson 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 a 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 certain employees, particularly development engineers, is intense despite the effects of the economic slowdown. 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.

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

We may consider pursuing additional 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.

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

Although we expect to be able to sustain net income, there is no assurance that we will be able to do so. Even if we sustain net income, we may not be able to increase net income on a quarterly or annual basis in the future. Our ability to sustain or increase net income is dependent on many of the risk factors identified in this report. Until the third quarter of 2001, we had a prior history of losses through our research and development phase and during the early commercialization of our products. It is possible that we may experience losses again in the future. If we are unable to sustain or increase our net income in the future, we may not be able to successfully operate our business and our stock price may decline.

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 National Market and the Nasdaq Europe 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 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 has fluctuated between $6.58 and $3.80 over the course of 2002 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 sales and financial results and a variety of risk 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, if we needed to raise equity funds under adverse conditions it would be difficult to sell a significant amount of our stock without causing a significant decline in the trading price of our stock. If our stock price drops below $3.00 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.

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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.

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 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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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 the end of the period covered by this Quarterly Report on Form 10-Q/A for the quarterly period ended September 30, 2002, our Chief Executive Officer and Chief Financial Officer have concluded that, subject to the limitations noted above and except as indicated 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 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, in September 2003, we were 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. We have since modified and standardized our purchase order forms to conform to the revenue recognition criteria in SAB 101 and we are implementing controls over future modifications to our purchase order forms.

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PART II OTHER INFORMATION

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

(a) EXHIBITS

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) REPORTS ON FORM 8-K

None.

* Filed herewith

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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: December 16, 2003

BIOLASE TECHNOLOGY, INC.,

(Registrant)

By: /s/ EDSON J. ROOD

Edson J. Rood

Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)