

BIOLASE TECHNOLOGY INC  
Form 10-Q  
November 08, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

\_\_\_\_\_  
**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2006

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**  
(State or other jurisdiction  
of incorporation or organization)

**87-0442441**  
(I.R.S. Employer  
Identification No.)

**4 Cromwell**

**Irvine, California 92618**

(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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes  No

Number of shares outstanding of the registrant's common stock, \$0.001 par value, as of November 3, 2006: 23,677,157

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*BIOLASE® and WaterLase® are registered trademarks, and Waterlase MD , Diolase Plus and HydroPhotonics are trademarks of BIOLASE Technology, Inc.*

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****BIOLASE TECHNOLOGY, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share data)

	September 30, 2006 (unaudited)	December 31, 2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 5,746	\$ 8,272
Short-term investments	9,949	
Short-term investments, restricted		9,863
Accounts receivable, less allowance of \$1,152 and \$420 in 2006 and 2005, respectively	10,149	8,404
Inventory, net	6,067	8,623
Prepaid expenses and other current assets	900	1,293
<b>Total current assets</b>	<b>32,811</b>	<b>36,455</b>
Property, plant and equipment, net	5,276	3,827
Intangible assets, net	1,558	1,831
Goodwill	2,926	2,926
Other assets	317	90
<b>Total assets</b>	<b>\$ 42,888</b>	<b>\$ 45,129</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Line of credit	\$	\$ 5,000
Accounts payable	6,291	7,759
Accrued liabilities	6,851	8,612
Deferred revenue	7,036	2,246
Deferred gain on sale of building, current portion		16
<b>Total current liabilities</b>	<b>20,178</b>	<b>23,633</b>
Deferred tax liability	235	202
Deferred revenue - long term	3,194	
<b>Total liabilities</b>	<b>23,607</b>	<b>23,835</b>
<b>Stockholders equity:</b>		
Preferred stock, par value \$0.001, 1,000 shares authorized, no shares issued and outstanding		
Common stock, par value \$0.001, 50,000 shares authorized; 25,633 shares and 25,218 shares issued; 23,669 and 23,254 outstanding in 2006 and 2005, respectively	26	26
Additional paid-in capital	110,145	106,484
Accumulated other comprehensive loss	(269)	(322)
Accumulated deficit	(74,222)	(68,495)

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Treasury stock (cost of 1,964 shares repurchased)	35,680	37,693
	(16,399)	(16,399)
<b>Total stockholders equity</b>	<b>19,281</b>	<b>21,294</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 42,888</b>	<b>\$ 45,129</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****BIOLASE TECHNOLOGY, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)****(in thousands, except per share data)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net revenue	\$ 17,066	\$ 11,655	\$ 49,853	\$ 43,022
Cost of revenue	8,451	6,351	24,941	22,067
<b>Gross profit</b>	<b>8,615</b>	<b>5,304</b>	<b>24,912</b>	<b>20,955</b>
Other (loss) income, net	(1)	16	10	48
Operating expenses:				
Sales and marketing	5,434	6,058	17,309	18,467
General and administrative	2,874	3,252	9,037	13,230
Engineering and development	1,471	1,196	4,018	5,289
Patent infringement legal settlement	(31)		349	
<b>Total operating expenses</b>	<b>9,748</b>	<b>10,506</b>	<b>30,713</b>	<b>36,986</b>
Loss from operations	(1,134)	(5,186)	(5,791)	(15,983)
Non-operating gain (loss), net	94	(16)	134	(135)
Loss before income taxes	(1,040)	(5,202)	(5,657)	(16,118)
Income tax (benefit) provision	(33)	29	70	166
<b>Net loss</b>	<b>\$ (1,007)</b>	<b>\$ (5,231)</b>	<b>\$ (5,727)</b>	<b>\$ (16,284)</b>
Net loss per share:				
Basic and diluted	\$ (0.04)	\$ (0.23)	\$ (0.24)	\$ (0.71)
Shares used in the calculation of net loss per share:				
Basic and diluted	23,580	23,150	23,394	22,984

See accompanying notes to consolidated financial statements.

**Table of Contents****BIOLASE TECHNOLOGY, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(in thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (5,727)	\$ (16,284)
Adjustments to reconcile net loss to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	1,560	825
Loss on sale of assets		50
Gain on disposal of assets	(10)	(48)
Provision for bad debts	732	234
Provision for inventory excess and obsolescence	110	694
Stock-based compensation	893	189
Issuance of common stock for patent litigation settlement	349	
Deferred income taxes	33	61
Changes in assets and liabilities:		
Accounts receivable	(2,477)	3,124
Inventory	2,446	(3,032)
Prepaid expenses and other assets	924	930
Accounts payable and accrued liabilities	(3,751)	(1,647)
Accrued legal settlement		(3,000)
Deferred revenue	7,984	(204)
Net cash and cash equivalents provided by (used in) operating activities	3,066	(18,108)
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(2,150)	(1,064)
Sale of marketable securities		35,291
Purchase of marketable securities		(19,943)
Net cash and cash equivalents (used in) provided by investing activities	(2,150)	14,284
<b>Cash flows from financing activities:</b>		
Net (repayments) borrowings on line of credit	(5,000)	5,000
Payments on insurance financing	(758)	
Proceeds from exercise of stock options and warrants	2,419	1,226
Payment of cash dividend		(689)
Net cash and cash equivalents (used in) provided by financing activities	(3,339)	5,537
Effect of exchange rate changes on cash and cash equivalents	(103)	31
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(2,526)</b>	<b>1,744</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>8,272</b>	<b>6,140</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 5,746</b>	<b>\$ 7,884</b>

**Supplemental cash flow disclosure:**

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**Cash and cash equivalents paid during the period for:**

Interest	\$ 362	\$ 190
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Taxes	\$ 131	\$
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**Non-cash investing and financing activities:**

Leasehold improvements capitalized and paid by landlord	\$ 569	\$
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Common stock issued for legal settlement	\$	\$ 3,446
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Common stock issued for Diodem patents	\$	\$ 530
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See accompanying notes to consolidated financial statements.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 1 BASIS OF PRESENTATION**

**The Company**

BIOLASE Technology Inc., (the Company or BIOLASE ) incorporated in Delaware in 1987, is a medical technology company operating in one business segment that designs, manufactures and markets advanced dental, cosmetic and surgical lasers and related products.

**Basis of Presentation**

The unaudited consolidated financial statements include the accounts of BIOLASE Technology, Inc. and its consolidated subsidiaries and have been prepared on a basis consistent with the December 31, 2005 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments and the elimination of all material intercompany transactions and balances, 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 accounting principles generally accepted in the United States of America ( GAAP ) for complete consolidated financial statements.

The preparation of these consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect amounts reported in the consolidated financial statements and the accompanying notes. Significant estimates in these consolidated financial statements include allowances on accounts receivable, inventory and deferred taxes, as well as estimates for accrued warranty expenses, the realizability of goodwill and indefinite-lived intangible assets, stock-based compensation and the provision or benefit for income taxes. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ materially from those estimates.

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

In 2005, the Financial Accounting Standards Board ( FASB ) issued Financial Accounting Standard ( FAS ) 154, *Accounting Changes and Error Corrections - A Replacement of APB Opinion 20 and FASB Statement No. 3*. This statement is effective for accounting changes and corrections of errors made after January 1, 2006. This statement applies to voluntary changes in accounting principle and requires retrospective application of the new accounting principle to prior period consolidated financial statements. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation Number FIN 48, *Accounting for Uncertainty in Income Taxes, An Interpretation of FASB Statement No. 109* ( FIN 48 ). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company is evaluating the impact of the interpretation on its consolidated financial statements and will adopt the provisions of this interpretation in fiscal year 2007.

In September 2006, the SEC issued Staff Accounting Bulletin 108 ( SAB 108 ). SAB 108 addresses the p