BIOLASE TECHNOLOGY INC
Form 10-Q/A
July 19, 2005
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended June 30, 2004

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.)**

981 Calle Amanecer

San Clemente, California 92673

(Address of principal executive offices, including zip code)

(949) 361-1200

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No x

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

Number of shares outstanding of the registrant s common stock, $0.001 par value, as of July 20, 2004: 24,324,000.

Table of Contents

BIOLASE TECHNOLOGY, INC.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (this Form 10-Q/A) amends our Quarterly Report on Form 10-Q for the second fiscal quarter ended June 30, 2004, as initially filed with the Securities and Exchange Commission (the SEC) on August 9, 2004, and is being filed to reflect the restatement of our consolidated financial statements for the three and six months ended June 30, 2004 and 2003, as discussed in Note 3 thereto.

As reported in the Form 8-K filed May 20, 2005, we decided to restate our financial statements after reaching the conclusion that we had under accrued sales tax and related penalties and interest for fiscal 2002. The impact of these sales tax and related adjustments that impacted 2002, 2003 and the first three quarters of 2004, as well as other adjustments in the areas of value-added tax (VAT), payroll and related accruals, deferred revenue, and other accrued liabilities have led our management to recommend, and our Audit Committee to conclude, that the consolidated financial statements as of and for the years ended December 31, 2003 and 2002 the four quarters of 2003 and the first three quarters of 2004 also need to be restated.

We are restating the unaudited consolidated financial statements in this Form 10-Q/A to correct for the following items:

- Under accrual of sales tax, and penalties and interest, and the reflection of subsequent abatement for a portion of the penalties and interest
- Refunds that were recorded for VAT, understating our VAT payable
- Training services and consumables in our multiple element arrangements for which these applicable elements of revenue were overstated
- Recognition of revenue on a Waterlase system that was not fully functional at the time of shipment
- Write-off of an accounts receivable balance for which revenue was improperly recognized
- Accruals for bonuses, commissions, payroll, health and dental insurance and vacation
- Understatement of our excess and obsolete reserve for items that had previously been reserved
- Recording cost of raw materials

Adjustments identified but not originally recorded that were previously determined to be immaterial

Except for the foregoing amended information required to reflect the effects of the restated consolidated financial statements, this Form 10-Q/A continues to describe conditions as presented in the original report on Form 10-Q. The Form 10-Q/A does not reflect events occurring after the filing of the Form 10-Q, or modify or update those disclosures, including exhibits to the Form 10-Q affected by subsequent events. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-Q on August 9, 2004. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the original Form 10-Q, including any amendments to those filings. The following items have been amended (and conforming changes have been made where indicated as restated) as a result of the restatement:

Part I Item 1 Financial Statements (unaudited)

Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations

Part I Item 4 Controls and Procedures

The restated consolidated financial statements as of December 31, 2003 and for the years ended December 31, 2002 and 2003 will be included in our Form 10-K as of and for the year ended December 31, 2004. The restatement of the other quarterly and year-to-date periods for 2003 and 2004 will be included in amendments to our Form 10-Q/A for the quarters ended March 31, 2004 and September 30, 2004.

Concurrently with the filing of this Form 10-Q/A, we are filing with the SEC the Form 10-K as of and for the year ended December 31, 2004, which includes the financial statements as of December 31, 2003 and the two years ended December 31, 2003, on a restated basis, and the Form 10-Q/A for the first and third quarters of 2004 to reflect changes required as a result of the restatements described above. No amendments have been made to our previously filed Annual Reports on Form 10-K for fiscal years 2002 or 2003, or the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003 and therefore they should not be relied upon.

Table of Contents

INDEX

		Page
	PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited) (Restated):	
	Consolidated Balance Sheets as of June 30, 2004 and December 31, 2003	4
	Consolidated Statements of Income for the three and six months ended June 30, 2004 and June 30, 2003	5
	Consolidated Statements of Cash Flows for the six months ended June 30, 2004 and June 30, 2003	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	24
	Risk Factors	30
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	38
Item 4.	Controls and Procedures	38
	PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings	39
Item 4.	Submission of Matters to a Vote of Security Holders	40
Item 6.	Exhibits and Reports on Form 8-K	40
	Signatures	41

BIOLASE®, Pulsemaster® and WaterLase® are registered trademarks, and LaserSmile and Diolase Plus are trademarks, of BIOLASE Technology, Inc. All other product and company names are registered trademarks or trademarks of their respective companies.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BIOLASE TECHNOLOGY, INC.

CONSOLIDATED BALANCE SHEETS (Unaudited)

	JUNE 30, 2004	DECEMBER 31, 2003
	RESTATED	RESTATED
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,374,000	$ 11,111,000
Short-term investments	9,942,000	
Accounts receivable, less allowance of $57,000 and $64,000 in 2004 and 2003, respectively	8,794,000	5,771,000
Inventory	5,077,000	3,808,000
Deferred tax asset	1,508,000	1,508,000
Prepaid expenses and other current assets	869,000	1,260,000
Total current assets	31,564,000	23,458,000
Investments	34,751,000	
Property, plant and equipment, net	2,046,000	1,973,000
Intangible assets, net	2,532,000	2,587,000
Goodwill	2,926,000	2,926,000
Deferred tax asset, net of current portion	13,078,000	12,651,000
Other assets	31,000	1,041,000
Total assets	$ 86,928,000	$ 44,636,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,620,000	$ 3,796,000
Accrued liabilities	4,873,000	5,551,000
Line of credit		1,792,000
Deferred revenue	1,803,000	1,229,000
Deferred gain on sale of building current portion	63,000	63,000
Debt		888,000
Total current liabilities	10,359,000	13,319,000
Deferred gain on sale of building	47,000	79,000
Total liabilities	10,406,000	13,398,000

Commitments and contingencies (Note 10)		
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 24,304,000 shares in 2004 and 21,559,000 shares in 2003	24,000	22,000
Additional paid-in capital	103,107,000	59,134,000
Accumulated other comprehensive loss	(307,000)	(147,000)
Accumulated deficit	(26,302,000)	(27,771,000)
Total stockholders equity	76,522,000	31,238,000
Total liabilities and stockholders equity	$ 86,928,000	$ 44,636,000

See accompanying notes to consolidated financial statements.

Page 4

Table of Contents

BIOLASE TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	RESTATED	RESTATED	RESTATED	RESTATED
	2004	2003	2004	2003
Net revenue	$ 14,738,000	$ 10,346,000	$ 29,268,000	$ 19,544,000
Cost of revenue	5,616,000	4,099,000	11,302,000	7,477,000
Gross profit	9,122,000	6,247,000	17,966,000	12,067,000
Other income, net	16,000	16,000	32,000	32,000
Operating expenses:				
Sales and marketing	5,664,000	3,608,000	11,000,000	7,260,000
General and administrative	1,560,000	1,087,000	3,227,000	1,920,000
Engineering and development	706,000	521,000	1,478,000	1,033,000
Total operating expenses	7,930,000	5,216,000	15,705,000	10,213,000
Income from operations	1,208,000	1,047,000	2,293,000	1,886,000
Non-operating income, net	210,000	58,000	149,000	112,000
Income before income taxes	1,418,000	1,105,000	2,442,000	1,998,000
Provision for income taxes	(565,000)	(13,000)	(973,000)	(13,000)
Net income	$ 853,000	$ 1,092,000	$ 1,469,000	$ 1,985,000
Net income per share:				
Basic	$ 0.04	$ 0.05	$ 0.06	$ 0.10
Diluted	$ 0.03	$ 0.05	$ 0.06	$ 0.09
Shares used in the calculation of net income per share:				
Basic	24,274,000	21,175,000	23,365,000	20,781,000
Diluted	25,374,000	23,093,000	24,582,000	22,623,000

See accompanying notes to consolidated financial statements.

Page 5

Table of Contents

BIOLASE TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	SIX MONTHS ENDED JUNE 30,	
	2004	**2003**
	RESTATED	**RESTATED**
Cash Flows From Operating Activities:		
Net income	$ 1,469,000	$ 1,985,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	299,000	138,000
Gain on disposal of assets	(32,000)	(31,000)
Gain on foreign exchange contract		(22,000)
Provision for uncollectible accounts	17,000	84,000
Provision for inventory obsolescence	87,000	171,000
Deferred tax asset	973,000	13,000
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(3,040,000)	(468,000)
Inventory	(1,356,000)	(761,000)
Prepaid expenses and other assets	1,401,000	202,000
Accounts payable and accrued liabilities	(854,000)	(73,000)
Deferred revenue	574,000	437,000
Net cash (used in) provided by operating activities	(462,000)	1,675,000
Cash Flows From Investing Activities:		
Purchase of investments	(44,751,000)	
Additions to property, plant and equipment	(291,000)	(136,000)
Business acquisition	(70,000)	(1,825,000)
Net cash used in investing activities	(45,112,000)	(1,961,000)
Cash Flows From Financing Activities:		
Borrowings on line of credit		1,792,000
Payment on line of credit	(1,792,000)	(1,792,000)
Payments on debt	(888,000)	(289,000)
Proceeds from issuance of common stock, net of expenses	41,868,000	
Proceeds from exercise of stock options and warrants	707,000	3,401,000
Net cash provided by financing activities	39,895,000	3,112,000
Effect of exchange rate changes on cash	(58,000)	(55,000)
Net (decrease) increase in cash and cash equivalents	(5,737,000)	2,771,000
Cash and cash equivalents at beginning of period	11,111,000	3,875,000

Cash and cash equivalents at end of period	$ 5,374,000	$ 6,646,000
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Cash paid during the period for interest	$ 20,000	$ 24,000
Cash paid during the period for taxes	$ 59,000	$ 2,000
Noncash financing activities:		
Business acquisition, net assets acquired	$	$ 5,846,000

See accompanying notes to consolidated financial statements.

Page 6

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying interim consolidated financial statements as of June 30, 2004 and for the three and six months ended June 30, 2004 and 2003 are unaudited and have been restated (Note 3). The accompanying consolidated balance sheet as of December 31, 2003 has also been restated (Note 3). 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 audited annual 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 state the information set forth therein. These unaudited, interim, consolidated financial statements do not include all the footnotes, presentations and disclosures normally required by generally accepted accounting principles in the United States of America (GAAP) for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission (the SEC) on the same date as this Form 10-Q/A has been filed.

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

The results of operations for the three and six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the full fiscal year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

We sell products domestically to customers through our direct sales force, and internationally through a direct sales force and through distributors. We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 104 which requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred and title and the risks and rewards of ownership have been transferred to our customer or services have been rendered; (3) the price is fixed and determinable; and (4) collectibility is reasonably assured.

Through August 2003, we recognized revenue for products sold domestically when we received a purchase order, the price was fixed or determinable, and payment was received due to a clause in our purchase order that stated that title transfers upon payment in full. We recognized revenue for products sold internationally through our direct sales force when we received a purchase order, the price was fixed or determinable, collectibility of the resulting receivable was probable and installation was completed, which was when the customer became obligated to pay. We recognized revenue for products sold through our distributors internationally when we received a purchase order, the price was fixed or determinable, collectibility of the resulting receivable was probable and the product was delivered. In August 2003, we modified the sales arrangements with our customers so that title transfers to the customer upon shipment for domestic sales, and there is an enforceable obligation to pay upon shipment for international direct sales. Beginning in August 2003, we have been recording revenue for all sales upon shipment.

We adopted EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, on July 1, 2003, which requires us to evaluate whether the separate deliverables in our arrangements can be unbundled. We determined that the sales of our Waterlase® includes separate deliverables consisting of the product, disposables used with the Waterlase, installation and training. We apply the residual value method, which requires us to allocate the total arrangement consideration less the fair value of the undelivered elements to the delivered element. Included in deferred revenue as of June 30, 2004 and December 31, 2003 was $1,384,000 (restated) and $887,000 (restated), respectively, of deferred revenue attributable to the undelivered elements which primarily consist of training and installation.

Extended warranty contracts, which are sold to our non-distributor customers, are recorded as revenue on a straight-line basis over the period of the contracts, which is one year. Included in deferred revenue as of June 30, 2004 and December 31, 2003 is $419,000 and $342,000, respectively, of deferred revenue for our extended warranty contracts.

Although all sales are final, we accept returns of products in certain circumstances and record a provision for sales returns based on historical experience concurrent with the recognition of revenue. The sales returns allowance is recorded as a reduction of accounts receivable, revenue and cost of revenue. As of June 30, 2004 and December 31, 2003, respectively, $329,000 and $327,000 was recorded as a reduction of accounts receivable.

Provision for Warranty Expense

Products sold directly to end-users are under warranty against defects in material and workmanship for a period of one year. Products sold internationally to distributors are covered by a warranty on parts for up to fourteen months with additional coverage

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

on certain components for up to two years. We estimate warranty costs at the time of product shipment based on historical experience. Estimated warranty expenses are recorded as an accrued liability, with a corresponding provision to cost of revenue.

Changes in the product warranty accrual, including expenses incurred under our initial and extended warranties, for the six months ended June 30, 2004 and 2003 were as follows:

	Six Months Ended June 30,	
	2004	2003
Beginning balance	$ 727,000	$ 625,000
Provision for estimated warranty cost	488,000	739,000
Warranty expenditures	(329,000)	(645,000)
Ending balance	$ 886,000	$ 719,000

Stock-based compensation

We measure compensation expense for stock-based employee compensation plans using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25 (APB No. 25). As the exercise price of all options granted under these plans was equal to the fair market price of the underlying common stock on the grant date, no stock-based employee compensation cost is recognized in the consolidated statements of income.

On December 31, 2002, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, Accounting for Stock Based Compensation Transition and Disclosure, which amends SFAS No. 123. SFAS No. 148, requires more prominent and more frequent disclosures about the effects of stock-based compensation by presenting pro forma net income (loss), pro forma net income (loss) per share and other disclosures concerning our stock-based compensation plan.

The following table illustrates the effect on net income and net income per share if we had applied the fair value recognition provisions of SFAS No. 123 to options granted under our stock-based employee compensation plans.

	Three Months Ended June 30,		Six Months Ended June 30,	
	Restated 2004	Restated 2003	Restated 2004	Restated 2003
Reported net income	$ 853,000	$ 1,092,000	$ 1,469,000	$ 1,985,000
Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(472,000)	(435,000)	(949,000)	(794,000)
Pro-forma net income	$ 381,000	$ 657,000	$ 520,000	$ 1,191,000
Basic net income per share:				
Reported	$ 0.04	$ 0.05	$ 0.06	$ 0.10
Pro-forma	$ 0.02	$ 0.03	$ 0.02	$ 0.06
Diluted net income per share:				
Reported	$ 0.03	$ 0.05	$ 0.06	$ 0.09
Pro-forma	$ 0.01	$ 0.03	$ 0.02	$ 0.05

The pro-forma net income has been revised to reflect the restatement of our unaudited consolidated financial statements described in Note 3 and to reflect revisions in the calculation to stock-based employee compensation expense.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Expected term (years)	3.50	3.50	3.50	3.50
Volatility	65%	80%	65%	80%
Annual dividend per share	0%	0%	0%	0%
Risk free interest rate	3.11%	1.92%	3.00%	1.94%
Weighted average fair value	$ 6.49	$ 6.44	$ 6.79	$ 6.08

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

Net Income Per Share Basic and Diluted

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

Stock options totaling 74,000 and 65,000 for the three and six months ended June 30, 2004, respectively, and stock options totaling 30,000 and 226,000 for the three and six months ended June 30, 2003, respectively, were not included in the diluted earnings per share amounts as their effect would have been anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004 Restated	2003 Restated	2004 Restated	2003 Restated
Weighted average shares outstanding basic	24,274,000	21,175,000	23,365,000	20,781,000
Dilutive effect of stock options and warrants	1,100,000	1,918,000	1,217,000	1,842,000
Weighted average shares outstanding diluted	25,374,000	23,093,000	24,582,000	22,623,000

The dilutive effect of stock options and warrants was decreased by 794,000 and increased by 56,000 for the three months ended June 30, 2004 and 2003, respectively. The dilutive effect of stock options and warrants was decreased by 871,000 and increased by 177,000 for the six months ended June 30, 2004 and 2003, respectively. These changes were made to reflect a revision in the calculation.

Inventory

We value inventory at the lower of cost or market (determined by the first-in, first-out method). We periodically evaluate the carrying value of inventory and maintain an allowance for obsolescence to adjust the carrying value to the lower of cost or market, based on physical and technical functionality as well as other factors affecting the recoverability of the asset through future sales. The allowance for obsolescence is adjusted based on such evaluation, with a corresponding provision included in cost of revenue. Components of inventory, net of an allowance for excess and obsolete items of $293,000 and $246,000 as of June 30, 2004 and December 31, 2003, respectively, were as follows:

	June 30, 2004 Restated	December 31, 2003 Restated
Materials	$ 2,444,000	$ 1,725,000
Work-in-process	1,034,000	894,000
Finished goods	1,599,000	1,189,000
Inventory	$ 5,077,000	$ 3,808,000

Property, Plant and Equipment

We state property, plant and equipment at acquisition cost less accumulated depreciation and amortization. The cost of property, plant and equipment is depreciated using the straight-line method over the estimated useful lives of the respective assets, except for leasehold improvements, which are amortized over the lesser of the estimated useful lives of the respective assets or the related lease terms. Maintenance and repairs are expensed as incurred. Upon sale or disposition of assets, any gain or loss is included in the consolidated statements of income.

We continually monitor events and changes in circumstances, which could indicate that the carrying balances of property, plant and equipment may exceed the undiscounted expected future cash flows from those assets. If such a condition were to exist, we will recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets.

Property, plant and equipment consisted of the following:

	June 30, 2004	December 31, 2003
Total cost	$ 2,817,000	$ 2,576,000
Accumulated depreciation	(771,000)	(603,000)
Net property, plant and equipment	$ 2,046,000	$ 1,973,000

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Intangible Assets and Goodwill

Costs incurred to establish and defend patents, trademarks and licenses and to acquire products and process technologies are capitalized and amortized over their estimated useful lives. Useful lives are based on our estimate of the period that the assets will generate revenue or otherwise productively support our business.

Goodwill and other intangible assets with indefinite lives are no longer subject to amortization but are tested for impairment annually or whenever events or changes in circumstances indicate that the assets might be impaired. We conducted our annual impairment test on June 30, 2004, and no impairment was noted. We will continue to test for impairment annually as of June 30th or when events occur that may trigger an impairment. Intangible assets with finite lives continue to be subject to amortization and any impairment is determined in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. We believe no event has occurred that would trigger an impairment of these intangible assets. We recorded amortization expense for the three and six months ended June 30, 2004, of $62,000 and $125,000, respectively, and $31,000 and $37,000, respectively, for the same periods of 2003.

The following table presents details of our intangible assets, related accumulated amortization and goodwill. Other intangible assets consist of acquired customer lists and a non-compete agreement.

	As of June 30, 2004			As of December 31, 2003		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patents (10 years)	$ 1,284,000	$ (216,000)	$ 1,068,000	$ 1,284,000	$ (150,000)	$ 1,134,000
Trademarks (6 years)	69,000	(65,000)	4,000	69,000	(60,000)	9,000
Trade names (Indefinite life)	979,000		979,000	979,000		979,000
Other (4 to 6 years)	593,000	(112,000)	481,000	523,000	(58,000)	465,000
Total	$ 2,925,000	$ (393,000)	$ 2,532,000	$ 2,855,000	$ (268,000)	$ 2,587,000
Goodwill (Indefinite life)	$ 2,926,000	$	$ 2,926,000	$ 2,926,000	$	$ 2,926,000

Non-operating income (loss), net

Non-operating income (loss), net consists of interest income and expense and foreign currency gains and losses. The operations and cash flows of our German subsidiary, for which the euro is the functional currency, are translated to U.S. dollars at average exchange rates during the period and its assets and liabilities are translated at the end-of-period exchange rates. Translation gains or losses related to our Germany subsidiary are shown as a component of accumulated other comprehensive income (loss) in stockholders equity. Foreign currency gains or losses relating to sales and purchase transactions which are denominated in other than U.S. dollars are shown as a net gain or loss in the consolidated statements of income.

The following table presents details of non-operating income (loss), net:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004 Restated	2003	2004 Restated	2003
Gain on foreign currency transactions	$ 79,000	$ 62,000	$ 32,000	$ 108,000
Gain on forward exchange contract				22,000
Interest income	131,000	8,000	138,000	13,000
Interest expense		(12,000)	(21,000)	(31,000)
	$ 210,000	$ 58,000	$ 149,000	$ 112,000

New Accounting Pronouncements

In December 2003, the FASB issued FASB Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R). FIN 46R requires the application of either FIN 46 or FIN 46R by Public Entities to all Special Purpose Entities (SPE) created prior to February 1, 2003 as of December 31, 2003 for calendar year-end companies. FIN 46R is applicable to all non-SPEs created prior to February 1, 2003 at the end of the first interim or annual period ending after March 15, 2004. For all entities created subsequent to January 31, 2003, Public Entities were required to apply the provisions of FIN 46R. The adoption of FIN 46R did not have an impact to our consolidated financial position, results of operations or cash flows.

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 3 - RESTATEMENT OF FINANCIAL STATEMENTS

On May 20, 2005, we announced the restatement of our consolidated financial statements for the years ended December 31, 2003 and 2002, the four quarters of 2003, and the first, second and third quarters of 2004. The unaudited consolidated financial statements included in this Form 10-Q/A for the three and six months ended June 30, 2004 and 2003 are restated to correct for the following errors:

Adjustments Impacting Stockholders Equity or Net Income

Revenue

During the fourth quarter of 2003, we did not identify all revenue transactions that contained a training element to be performed after product shipment. This resulted in us recognizing revenue before we had performed the related services and resulted in an overstatement of revenue in the period the product was shipped. As a result, we decreased revenue for the undelivered training that had not been performed during the three and six months ended June 30, 2004 and recognized revenue for training that had been performed during the three and six months ended June 30, 2004, which had originally been recorded as a reduction to sales and marketing expense. There were no adjustments for the three and six months ended June 30, 2003.

During the first and second quarters of 2004, we improperly recognized revenue on consumables that had not been shipped in the period the revenue was recognized. As a result, we have reduced revenue and increased deferred revenue for the three and six months ended June 30, 2004 and 2003.

During the fourth quarter of 2003, we did not identify a Waterlase system that was not fully functional at the time of shipment which resulted in the overstatement of revenue and cost of revenue. As a result, we decreased revenue and cost of revenue in the fourth quarter of 2003 and recognized the revenue and cost of revenue in the first quarter of 2004 when the final part required for functionality was delivered.

Cost of revenue

Adjustments were made to reduce inventory and increase the cost of revenue during the three months ended June 30, 2004 resulting from errors in recording inventory cost. For the six months ended June 30, 2004 we reduced inventory and increased cost of revenue for items that had previously been reserved.

General and administrative expense

Sales tax liability, related penalties and interest, and gains recognized on the abatement of certain penalties and interest

We charged our customers sales tax on purchases, but were late in filing sales tax returns and remitting amounts collected to certain states from 1998 to 2004. Additionally, the sales tax liability we recorded was understated. In accordance with the applicable accounting rules we are required to accrue, as a liability, interest and penalties under the applicable statutes, on late filings for which payment of sales tax has not been made. We have restated the consolidated financial statements for the three and six months ended June 30, 2004 and 2003 to accrue these penalties and interest as a liability and to adjust for the under accrual of sales tax expense. During the three and six months ended June 30, 2004, we reached agreements with certain states and were relieved from our liability to pay certain of the penalties and interest. Accordingly, we recognized a gain for the difference between the amount of penalties and interest that we had accrued as a liability and the amount we will pay to those states.

Value-added tax

We determined that certain refunds previously claimed on our value-added tax (VAT) tax returns and refunds recorded as a reduction of our VAT liability, would be disallowed due to the improper collection of value-added tax information required at the time of product shipment. As a result, we increased our operating expense to properly reflect our liability for these items for the three and six months ended June 30, 2004 and 2003.

Employee compensation

As a result of various errors in recording payroll expense, health and dental insurance, vacation expense and bonus expense during the three and six months ended June 30, 2004 and 2003, we understated net income during the three and six months ended June 30, 2004, overstated net income during the three months ended June 30, 2003, and understated net income for the six months ended June 30, 2003.

Other

During 2002, we identified but did not originally record adjustments determined to be immaterial individually and in the aggregate.

During the first quarter of 2004, we wrote off a receivable for a service part that was never delivered. We reduced the revenue in the third quarter of 2003, and in the first quarter of 2004 eliminated the write off related to this service part.

Foreign Exchange Rate

The weighted average exchange rates used to translate the results of our German subsidiary, for which the local currency is the functional currency, were improperly calculated.

Income Taxes

The provision for income taxes has been revised to reflect the impact of the errors listed above. For the three and six months ended June 30, 2004, the annual effective tax rate was applied to the as restated income before income taxes resulting in an increase to the provision for income taxes and a decrease in deferred tax assets. For the three and six months ended June 30, 2003, we recorded a full valuation allowance against our net deferred tax assets due to the uncertainty of their realization, excluding the deferred tax liability that arises as a result of the amortization of goodwill and our indefinite-lived intangible asset that are deductible for tax purposes. As a result, we recorded a $13,000 provision for income taxes for the three and six months ended June 30, 2003. We also increased deferred tax assets for the stock option deduction benefit recorded to additional paid-in-capital for options exercised during the six months ended June 30, 2004.

The net effect of these errors is to decrease revenue by $71,000 and decrease revenue by $45,000, to increase cost of revenue by $43,000 and $66,000, to decrease operating expenses by $338,000 and $250,000, and to increase components of net income for the effects of foreign currency by $17,000 and $17,000, for the three and six months ended June 30, 2004, respectively. For 2003, the net effect of the adjustments is to decrease revenue by $13,000 and $13,000, to increase cost of revenue by $84,000 and $115,000, and to increase operating expenses by $51,000 and $67,000 for the three and six months ended June 30, 2003, respectively. The provision for income taxes has been revised to reflect the impact of these adjustments.

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table is a reconciliation of net income as previously reported to amounts as restated for the periods indicated:

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Net income as previously reported	$ 716,000	$ 1,253,000	$ 1,388,000	$ 2,193,000
Adjustments to revenue:				
Undelivered training element	(29,000)		(104,000)	
Training performed	42,000		140,000	
Consumables not shipped	(84,000)	(13,000)	(136,000)	(13,000)
Product delivered			55,000	
Total revenue related adjustments	(71,000)	(13,000)	(45,000)	(13,000)
Adjustments to cost of revenue:				
Employee compensation	(26,000)	(17,000)	(8,000)	(33,000)
Inventory	(17,000)		(50,000)	
Product delivered			(8,000)	
Other		(67,000)		(82,000)
Total cost of revenue related adjustments	(43,000)	(84,000)	(66,000)	(115,000)
Adjustments to sales and marketing expense:				
Employee compensation	52,000		28,000	
Other				(27,000)
Total sales and marketing expense related adjustments	52,000		28,000	(27,000)
Adjustments to general and administrative expense:				
Sales tax	(12,000)	12,000	(52,000)	(54,000)
Penalties and interest on sales tax	(47,000)	(60,000)	(94,000)	(112,000)
Gain on abatement of sales tax liability	196,000		258,000	
Value-added tax	(9,000)	(11,000)	(24,000)	(11,000)
Employee compensation	158,000	8,000	127,000	72,000
Other			7,000	65,000
Total general and administrative expense related adjustments	286,000	(51,000)	222,000	(40,000)
Adjustments to income tax provision	(104,000)	(13,000)	(75,000)	(13,000)

Foreign exchange rate adjustments (A)	17,000		17,000	
Restated net income	$ 853,000	$ 1,092,000	$ 1,469,000	$ 1,985,000
Net income per share (restated):				
Basic	$ 0.04	$ 0.05	$ 0.06	$ 0.10
Diluted	$ 0.03	$ 0.05	$ 0.06	$ 0.09

(A) This amount represents the net impact to the statements of income for errors in translation. The impact to each account is included in the statements of income included elsewhere in Note 3.

Page 12

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Adjustments Not Impacting Stockholders Equity or Net Income

As of June 30, 2004, we have reclassified amounts from accrued liabilities to deferred revenue so that all deferred revenue items are included in the same balance sheet component. In addition, we reclassified our value added tax receivable included in prepaid expenses and other current assets as a reduction to our value added tax payable included in accrued liabilities. The adjustments not impacting stockholders equity as of December 31, 2003, including the adjustments to the balance sheets for prior periods, are more fully described in Note 3 to the consolidated financial statements filed in our Form 10-K with the SEC on the same date as this Form 10-Q/A has been filed.

We have corrected the presentation of certain amounts related to the training component included in our multiple element arrangements, which had incorrectly been classified as a reduction to sales and marketing expense when the training was performed, to revenue. We have corrected the presentation of the expenses for our training, which had incorrectly been classified as sales and marketing expense, to cost of revenue. We corrected the presentation of commissions paid to distributors that were improperly recorded as sales and marketing expense as a reduction of revenue. Also, we corrected the presentation of the deferred gain on the sale of our building from net revenue to other income.

The following table sets forth selected consolidated balance sheet data, showing previously reported amounts, restatement adjustments not impacting stockholders equity and restatement adjustments impacting stockholders equity for the periods indicated.

Consolidated Balance Sheet Data

	June 30, 2004				
	As Previously Reported	Adjustments Not Impacting Stockholders Equity	Foreign Exchange Rate Adjustments	Other Adjustments Impacting Stockholders Equity	As Restated
Current assets:					
Cash and cash equivalents	$ 5,374,000	$	$	$	$ 5,374,000
Short term investments	9,942,000				9,942,000
Accounts receivable	8,794,000				8,794,000
Inventory	5,078,000			(1,000)	5,077,000
Deferred tax asset	1,079,000			429,000	1,508,000
Prepaid expenses and other current assets	1,089,000	(220,000)			869,000

Total current assets	31,356,000	(220,000)		428,000	31,564,000
Investments	34,751,000				34,751,000
Property, plant and equipment, net	2,046,000				2,046,000
Intangible assets, net	2,532,000				2,532,000
Goodwill	2,926,000				2,926,000
Deferred tax asset, net of current portion	11,784,000			1,294,000	13,078,000
Other assets	31,000				31,000
Total assets	$ 85,426,000	$ (220,000)	$	$ 1,722,000	$ 86,928,000
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable	$ 3,637,000	$	$	$ (17,000)	$ 3,620,000
Accrued liabilities	5,356,000	(966,000)		483,000	4,873,000
Deferred revenue	721,000	746,000		336,000	1,803,000
Deferred gain on sale of building current portion	63,000				63,000
Total current liabilities	9,777,000	(220,000)		802,000	10,359,000
Deferred gain on sale of building	47,000				47,000
Total liabilities	9,824,000	(220,000)		802,000	10,406,000
Stockholders equity:					
Preferred stock					
Common stock	24,000				24,000
Additional paid-in capital	101,761,000			1,346,000	103,107,000
Accumulated other comprehensive loss	(290,000)		(17,000)		(307,000)
Accumulated deficit	(25,893,000)		17,000	(426,000)	(26,302,000)
Total stockholders equity	75,602,000			920,000	76,522,000
Total liabilities and stockholders equity	$ 85,426,000	$ (220,000)	$	$ 1,722,000	$ 86,928,000

Page 13

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Consolidated Balance Sheet Data

	December 31, 2003			
	As Previously Reported	Adjustments Not Impacting Stockholders Equity	Adjustments Impacting Stockholders Equity	As Restated
Current assets:				
Cash and cash equivalents	$ 11,111,000	$	$	$ 11,111,000
Accounts receivable	5,771,000			5,771,000
Inventory	3,752,000		56,000	3,808,000
Deferred charges on products shipped	55,000	(55,000)		
Deferred tax asset	1,079,000		429,000	1,508,000
Prepaid expenses and other current assets	1,528,000	(268,000)		1,260,000
Total current assets	23,296,000	(323,000)	485,000	23,458,000
Property, plant and equipment, net	1,973,000			1,973,000
Intangible assets, net	2,587,000			2,587,000
Goodwill	2,926,000			2,926,000
Deferred tax asset, net of current portion	12,678,000		(27,000)	12,651,000
Other assets	1,041,000			1,041,000
Total assets	$ 44,501,000	$ (323,000)	$ 458,000	$ 44,636,000
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$ 3,590,000	$ 223,000	$ (17,000)	$ 3,796,000
Accrued liabilities	5,940,000	(1,111,000)	722,000	5,551,000
Line of credit	1,792,000			1,792,000
Customer deposits	223,000	(223,000)		
Deferred revenue	144,000	788,000	297,000	1,229,000
Deferred gain on sale of building current portion	63,000			63,000
Debt	888,000			888,000
Total current liabilities	12,640,000	(323,000)	1,002,000	13,319,000
Deferred gain on sale of building	79,000			79,000
Total liabilities	12,719,000	(323,000)	1,002,000	13,398,000
Stockholders equity:				
Preferred stock				

Common stock	22,000			22,000
Additional paid-in capital	59,188,000		(54,000)	59,134,000
Accumulated other comprehensive loss	(147,000)			(147,000)
Accumulated deficit	(27,281,000)		(490,000)	(27,771,000)
Total stockholders equity	31,782,000		(544,000)	31,238,000
Total liabilities and stockholders equity	$ 44,501,000	$ (323,000)	$ 458,000	$ 44,636,000

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table sets forth selected consolidated statement of income data showing previously reported amounts, restatement adjustments not impacting net income and restatement adjustments impacting net income for the periods indicated:

Consolidated Statement of Income Data

	Three Months Ended June 30, 2004				
	As Previously Reported	Adjustments Not Impacting Net Income	Foreign Exchange Rate Adjustments	Other Adjustments Impacting Net Income	As Restated
Net revenue	$ 14,805,000	$ 4,000	$	$ (71,000)	$ 14,738,000
Cost of revenue	5,104,000	475,000	(6,000)	43,000	5,616,000
Gross profit	9,701,000	(471,000)	6,000	(114,000)	9,122,000
Other income, net		16,000			16,000
Operating expenses:					
Sales and marketing	6,182,000	(455,000)	(11,000)	(52,000)	5,664,000
General and administrative	1,848,000		(2,000)	(286,000)	1,560,000
Engineering and development	706,000				706,000
Total operating expenses	8,736,000	(455,000)	(13,000)	(338,000)	7,930,000
Income from operations	965,000		19,000	224,000	1,208,000
Non-operating gain (loss), net	212,000		(2,000)		210,000
Income before income taxes	1,177,000		17,000	224,000	1,418,000
Provision for income taxes	(461,000)			(104,000)	(565,000)
Net income	$ 716,000	$	$ 17,000	$ 120,000	$ 853,000
Net income per share:					
Basic	$ 0.03	$	$	$ 0.01	$ 0.04
Diluted	$ 0.03	$	$	$	$ 0.03

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Consolidated Statement of Income Data

	Three Months Ended June 30, 2003			
	As Previously Reported	Adjustments Not Impacting Net Income	Adjustments Impacting Net Income	As Restated
Net revenue	$ 10,375,000	$ (16,000)	$ (13,000)	$ 10,346,000
Cost of revenue	4,015,000		84,000	4,099,000
Gross profit	6,360,000	(16,000)	(97,000)	6,247,000
Other income, net		16,000		16,000
Operating expenses:				
Sales and marketing	3,608,000			3,608,000
General and administrative	1,036,000		51,000	1,087,000
Engineering and development	521,000			521,000
Total operating expenses	5,165,000		51,000	5,216,000
Income from operations	1,195,000		(148,000)	1,047,000
Non-operating gain (loss), net	58,000			58,000
Income before income taxes	1,253,000		(148,000)	1,105,000
Provision for income taxes			(13,000)	(13,000)
Net income	$ 1,253,000	$	$ (161,000)	$ 1,092,000
Net income per share:				
Basic	$ 0.06	$	$ (0.01)	$ 0.05
Diluted	$ 0.05	$	$	$ 0.05

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Consolidated Statement of Income Data

	Six Months Ended June 30, 2004				
	As Previously Reported	Adjustments Not Impacting Net Income	Foreign Exchange Rate Adjustments	Other Adjustments Impacting Net Income	As Restated
Net revenue	$ 29,230,000	$ 83,000	$	$ (45,000)	$ 29,268,000
Cost of revenue	10,242,000	1,000,000	(6,000)	66,000	11,302,000
Gross profit	18,988,000	(917,000)	6,000	(111,000)	17,966,000
Other income, net		32,000			32,000
Operating expenses:					
Sales and marketing	11,924,000	(885,000)	(11,000)	(28,000)	11,000,000
General and administrative	3,451,000		(2,000)	(222,000)	3,227,000
Engineering and development	1,478,000				1,478,000
Total operating expenses	16,853,000	(885,000)	(13,000)	(250,000)	15,705,000
Income from operations	2,135,000		19,000	139,000	2,293,000
Non-operating gain, net	151,000		(2,000)		149,000
Income before income taxes	2,286,000		17,000	139,000	2,442,000
Provision for income taxes	(898,000)			(75,000)	(973,000)
Net income	$ 1,388,000	$	$ 17,000	$ 64,000	$ 1,469,000
Net income per share:					
Basic	$ 0.06	$	$	$	$ 0.06
Diluted	$ 0.05	$	$	$ 0.01	$ 0.06

Page 17

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Consolidated Statement of Income Data

	Six Months Ended June 30, 2003			
	As Previously Reported	Adjustments Not Impacting Net Income	Adjustments Impacting Net Income	As Restated
Net revenue	$ 19,589,000	$ (32,000)	$ (13,000)	$ 19,544,000
Cost of revenue	7,362,000		115,000	7,477,000
Gross profit	12,227,000	(32,000)	(128,000)	12,067,000
Other income, net		32,000		32,000
Operating expenses:				
Sales and marketing	7,233,000		27,000	7,260,000
General and administrative	1,880,000		40,000	1,920,000
Engineering and development	1,033,000			1,033,000
Total operating expenses	10,146,000		67,000	10,213,000
Income from operations	2,081,000		(195,000)	1,886,000
Non-operating (loss) gain, net	112,000			112,000
Income before income taxes	2,193,000		(195,000)	1,998,000
Provision for income taxes			(13,000)	(13,000)
Net income	$ 2,193,000	$	$ (208,000)	$ 1,985,000
Net income per share:				
Basic	$ 0.11	$	$ (0.01)	$ 0.10
Diluted	$ 0.10	$	$ (0.01)	$ 0.09

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table sets forth selected consolidated statement of cash flow data showing previously reported amounts and restated amounts for the periods indicated:

Consolidated Statements of Cash Flows Data

	Six Months Ended June 30,			
	2004	**2004**	**2003**	**2003**
	As Previously Reported	**As Restated**	**As Previously Reported**	**As Restated**
Cash Flows From Operating Activities:				
Net income	$ 1,388,000	$ 1,469,000	$ 2,193,000	$ 1,985,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	299,000	299,000	138,000	138,000
(Loss) gain on disposal of assets	(32,000)	(32,000)	(31,000)	(31,000)
(Loss) gain on foreign exchange contract			(22,000)	(22,000)
Provision for uncollectible accounts	17,000	17,000	84,000	84,000
Provision for inventory obsolescence	87,000	87,000	171,000	171,000
Deferred income tax	894,000	973,000		13,000
Changes in assets and liabilities:				
Accounts receivable	(3,040,000)	(3,040,000)	(468,000)	(468,000)
Inventory	(1,413,000)	(1,356,000)	(843,000)	(761,000)
Prepaid expenses and other assets	1,504,000	1,401,000	59,000	202,000
Accounts payable and accrued liabilities	(332,000)	(854,000)	40,000	(73,000)
Deferred revenue	149,000	574,000		437,000
Net cash (used in) provided by operating activities	(479,000)	(462,000)	1,321,000	1,675,000
Cash Flows From Investing Activities:				
Purchase of investments	(44,751,000)	(44,751,000)		
Additions to property, plant and equipment	(291,000)	(291,000)	(136,000)	(136,000)
Business acquisition	(70,000)	(70,000)	(1,825,000)	(1,825,000)
Net cash used in investing activities	(45,112,000)	(45,112,000)	(1,961,000)	(1,961,000)
Cash Flows From Financing Activities:				
Borrowings on line of credit			1,792,000	1,792,000

Payment on line of credit	(1,792,000)	(1,792,000)	(1,792,000)	(1,792,000)
Payments on insurance notes	(888,000)	(888,000)		(289,000)
Proceeds from issuance of common stock, net of expenses	41,868,000	41,868,000		
Proceeds from exercise of stock options and warrants	707,000	707,000	3,401,000	3,401,000
Net cash provided by financing activities	39,895,000	39,895,000	3,401,000	3,112,000
Effect of exchange rate changes on cash	(41,000)	(58,000)	(55,000)	(55,000)
Net increase in cash and cash equivalents	(5,737,000)	(5,737,000)	2,706,000	2,771,000
Cash and cash equivalents at beginning of period	11,111,000	11,111,000	3,940,000	3,875,000
Cash and cash equivalents at end of period	$ 5,374,000	$ 5,374,000	$ 6,646,000	$ 6,646,000

Page 19

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 4 INVESTMENTS IN MARKETABLE SECURITIES

Our investments are comprised of U.S. government notes and bonds and have been categorized as available-for-sale. We have classified our available-for-sale securities as either short-term or long-term based on management s expectations of when the funds will be used. Unrealized gains (losses) on the investments are included in the other comprehensive income in the stockholders equity. During the three months ended June 30, 2004, we recorded an unrealized loss of $58,000. The following summarizes our investments as of June 30, 2004:

	Amortized Cost	Unrealized Gain/(Loss)	Fair Value
Short-term			
U.S. Government bond	$ 9,936,000	$ 6,000	$ 9,942,000
Long-term (18 months to 2 years)			
U.S. Government notes	34,815,000	(64,000)	34,751,000
Total investments in marketable securities	$ 44,751,000	$ (58,000)	$ 44,693,000

NOTE 5 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable includes $117,000 and $223,000 of customer deposits at June 30, 2004 and December 31, 2003, respectively.

Components of accrued liabilities were as follows:

	June 30, 2004 Restated	December 31, 2003 Restated
Payroll and benefits	$ 1,844,000	$ 2,090,000
Warranty expense	886,000	727,000
Sales tax	1,114,000	1,418,000
Amounts due to customers	312,000	205,000
Professional services	352,000	574,000
Other	365,000	537,000

Total accrued liabilities	$ 4,873,000	$ 5,551,000

We reimburse our customers for their costs related to certain marketing programs. On our purchase orders we state the amount that we will reimburse the customers, which is recorded as a reduction of revenue when revenue of the purchase order is recognized. Amounts due to customers represent our obligation to reimburse our customers for these programs.

NOTE 6 ACQUISITION

On May 21, 2003, we acquired the American Dental Laser (ADL) assets from American Medical Technologies, Inc. (AMT) for approximately $5.8 million, in order to leverage our marketing, strengthen our portfolio of intellectual property and expand our product lines. The assets acquired included inventory, dental laser patents, customer lists, brand names and other intellectual property, as well as laser products. No liabilities of AMT were assumed in the transaction. The consideration paid by us consisted of approximately $1.8 million in cash, $215,000 in transaction costs directly attributable to the acquisition and 308,000 shares of common stock with a fair value of approximately $3.8 million. For purposes of computing the purchase price, the value of the common stock of $12.38 per share was determined by taking the average closing price of our common stock as quoted on NASDAQ between May 19, 2003 and May 23, 2003. The total purchase price has been allocated to the acquired tangible and intangible assets of ADL based on the fair values with the balance allocated to goodwill. The acquisition was accounted for as a purchase under SFAS No. 141, Business Combinations. The amount allocated to the intangible assets was determined using estimates of discounted cash flow for the patents, trademarks, trade name and non-competition agreement; and the cost approach was used to estimate the value of the customer list. The total intangible assets acquired include approximately $2.9 million for goodwill (which is deductible for tax purposes), $979,000 for trade names and trademarks, $1.2 million for patents, $432,000 for a customer list and $91,000 for a non-compete agreement. The patents are being amortized over ten years, the customer list over six years, and the non-compete agreement over four years. The trademarks and trade names were determined to have indefinite lives.

The total consideration consisted of the following:

Cash	$ 1,825,000
Stock consideration (308,000 shares at $12.38 per share)	3,806,000
Acquisition costs	215,000
Total	$ 5,846,000

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The components of the purchase price and allocation are as follows:

Tangible assets acquired	$ 246,000
Identifiable intangible assets acquired	2,674,000
Goodwill	2,926,000
Total	$ 5,846,000

The following unaudited data summarizes the results of operations for the period indicated as if the ADL acquisition had been completed as of the beginning of the period presented. The pro forma data gives effect to actual operating results prior to the acquisition, adjusted to include the pro forma effect of amortization of identifiable intangible assets:

	Six Months Ended June 30, 2003 Restated
Pro forma:	
Net revenue	$ 20,158,000
Net income	$ 1,777,000
Net income per share:	
Basic	$ 0.09
Diluted	$ 0.08

In January 2004, we acquired PAClive, a continuing education program for dentists, from Discus Dental, Inc. for $70,000. The assets acquired were trademarks and a customer list along with minor equipment and supplies. We have recorded this acquisition as an increase in intangible assets with a useful life of five years.

NOTE 7 STOCKHOLDERS EQUITY

In March 2004, as a result of the completion of a public underwritten offering, we issued 2,500,000 shares of common stock at an offering price of $18.50 per share. Gross proceeds from the offering were $46,250,000, before deducting underwriting discount of $2,875,000. In connection with the offering, we incurred direct expenses of $1,507,000, which had been included in other assets and were reclassified as a reduction of additional paid-in capital after the closing of the offering.

Shares issued as a result of stock option exercises for the three and six months ended June 30, 2004 totaled 50,000 and 245,000, respectively, which resulted in proceeds of approximately $259,000 and $707,000, respectively.

NOTE 8 COMPREHENSIVE INCOME

Components of comprehensive income were as follows:

	Three Months Ended Restated		Six Months Ended Restated	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Net income	$ 853,000	$ 1,092,000	$ 1,469,000	$ 1,985,000
Other comprehensive (loss) income items:				
Unrealized (loss) gain on marketable securities	(58,000)		(58,000)	
Foreign currency translation adjustments	(90,000)	(51,000)	(102,000)	(77,000)
Comprehensive income	$ 705,000	$ 1,041,000	$ 1,309,000	$ 1,908,000

NOTE 9 INCOME TAXES

As of December 31, 2003, the valuation reserves on our deferred tax assets were reduced and we recognized an income tax benefit and established net deferred tax assets of $14.2 million. We have recorded a provision for income tax expense of $565,000 and $973,000, respectively, for the three and six months ended June 30, 2004 which reduced our deferred tax assets. Income taxes will not be payable, subject to any alternative minimum tax, until we have utilized our net operating loss carryforwards, which were approximately $32.4 million as of December 31, 2003. For the three and six months ended June 30, 2003, we recorded a full valuation allowance against our net deferred tax assets due to the uncertainty of their realization, excluding the deferred tax liability that arises as a result of the amortization of goodwill and our indefinite-lived intangible asset that are deductible for tax purposes. As a result, we recorded a $13,000 provision for income taxes for the three and six months ended June 30, 2003.

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 10 COMMITMENTS AND CONTINGENCIES

Leases

We lease our manufacturing, administration and headquarter facilities in San Clemente, California, certain equipment and automobiles under operating lease arrangements. Future minimum rental commitments under operating leases as of June 30, 2004 for each of the years ending December 31 are as follows:

	Restated
Remainder of 2004	$ 274,000
2005	538,000
2006	120,000
2007	17,000
2008	1,000
Total	$ 950,000

The future minimum rentals have been increased by $228,000 to restate for commitments that had been improperly excluded.

Litigation

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

In response to our lawsuit against Diodem, on May 5, 2003, Diodem added us as a party to an infringement lawsuit it had previously filed in the U.S. District Court for the Central District of California. The other parties to this lawsuit are American Medical Technologies, Inc. (AMT), Lumenis and its subsidiary OpusDent, Ltd., and Hoya Photonics and its subsidiary Hoya ConBio. OpusDent and Hoya ConBio manufacture and sell dental lasers pursuant to patents originally licensed to them by AMT. We acquired the licensed patents and related license agreements in our acquisition of the American Dental Laser assets from AMT. In July 2003, AMT was dismissed from the lawsuit without prejudice; however, we and other defendants remain in the suit.

Diodem s lawsuit against us alleges that our Waterlase product infringes upon the four patents that Diodem acquired from Premier Laser. Diodem also alleges that the products sold by OpusDent and Hoya ConBio also infringe upon the patents. Diodem s infringement suit seeks treble damages, a preliminary and permanent injunction from further alleged infringement, attorneys fees and other unspecified damages. If Diodem successfully asserts an infringement claim against us, our operations may be significantly impacted, especially to the extent that it affects our right to use the technology incorporated in our Waterlase system, which accounted for approximately 82% of our revenue for the first six months of 2004 and approximately 83% of our revenue for the year ended December 31, 2003. If Diodem successfully asserts an infringement claim against Hoya ConBio and OpusDent, it could reduce or eliminate royalties we might receive under licenses to those products, which have totaled approximately $492,000 since the acquisition of the American Dental Laser assets in May 2003. This combined lawsuit may proceed for an extended period of time. Although the outcome of these actions cannot be determined with any certainty, we believe our technology and products do not infringe any valid patent rights owned by Diodem, and we intend to continue to vigorously defend against Diodem s infringement action and pursue our declaratory relief action against Diodem. No amounts have been recorded in the consolidated financial statements relating to the outcome of this matter.

We and certain of our officers have been recently named as defendants in several putative shareholder class actions filed in the United States District Court for the Central District of California. The complaints purport to allege a class action on behalf of persons who purchased our common stock between October 29, 2003 and July 16, 2004, and allege violations of federal securities laws. The complaints allege that we and our officers failed to disclose material information about the demand for our products and the fact that the Company would not achieve the financial growth forecasted. The claimed misrepresentations include certain statements in our press releases and the registration statement we filed in connection with our public offering of stock in March 2004.

We have not yet formally responded to any of the actions and no discovery has been conducted by any of the parties. However, based on the facts presently known, we believe we have meritorious defenses to these actions and intend to vigorously defend them.

Table of Contents

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

Table of Contents

Securities and Exchange Commission Inquiry

Following the restatement of our financial statements in September 2003, we received, in late October 2003, and subsequently in 2003 and 2004, informal requests from the SEC to voluntarily provide information relating to the restatement. We have provided information to the SEC and, when we receive any additional requests, we would further cooperate in responding. In accordance with its normal practice, the SEC has not advised us when its inquiry might be concluded.

NOTE 11 CONCENTRATIONS

Many of our customers finance their purchases through third-party leasing companies. In these transactions, the leasing company is considered the purchaser. Revenues generated from dentists who financed their purchase through one leasing company were approximately 25% and 31%, respectively, for the three and six months ended June 30, 2004, and 28% and 29%, respectively, for the same periods of 2003. Other than these transactions, no distributor or customer accounted for more than 10% of consolidated net revenue for the three months ended June 30, 2004 and June 30, 2003.

Financial instruments that subject us to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. We maintain our cash accounts with established commercial banks. Such cash deposits periodically exceed the Federal Deposit Insurance Corporation insured limit of $100,000 for each account.

Accounts receivable concentrations have resulted from sales activity to the one leasing company mentioned above. Accounts receivable for the one leasing company totaled $1,133,000 and $742,000, respectively, at June 30, 2004 and December 31, 2003. No other single customer accounted for more than 10% of our accounts receivable at June 30, 2004 or December 31, 2003.

NOTE 12 SEGMENT INFORMATION

We currently operate in a single business segment. Revenues from the sale of Waterlase, our principal product, represented 86% and 82%, respectively, of total revenues for the three and six months ended June 30, 2004 and 83% and 80%, respectively, for the same periods of 2003. Revenues by geographic location based on the location of customers were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	Restated	Restated	Restated	Restated
Domestic	$ 11,297,000	$ 7,182,000	$ 23,002,000	$ 15,257,000
International	3,441,000	3,164,000	6,266,000	4,287,000

	$ 14,738,000	$ 10,346,000	$ 29,268,000	$ 19,544,000

NOTE 13 SUBSEQUENT EVENTS

On July 19, 2004, we announced that our Board of Directors authorized a 1.25 million share repurchase program. Pursuant to the authorization, we may purchase shares from time to time in the open market or through privately negotiated transactions over the next 12 months. As of July 31, 2004, we repurchased approximately 861,000 shares at an average price of $9.08 per share.

On July 27, 2004, we announced the declaration of a regular cash dividend of $0.01 per share every other month payable to the stockholders of record at the time. The dividend policy will remain in place for an indefinite period of time. The first dividend will be payable August 30, 2004 to stockholders of record on August 16, 2004.

On July 27, 2004, we announced that our Vice President and Chief Financial Officer, Edson J. Rood, is retiring from this position effective immediately. Mr. Rood has agreed to remain as an employee of the Company until the transition of his responsibilities is completed and to assist with special assignments during this transition period. We named Robert E. Grant, the Company s Chief Operating Officer, as our Interim Chief Financial Officer.

On August 9, 2004, we announced that our Board of Directors authorized the repurchase of an additional 750,000 shares of our common stock, increasing the total share repurchase program to 2.0 million shares of our common stock. These additional shares may be purchased from time to time in the open market or through privately negotiated transactions over the next 12 months.

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 quarterly report on Form 10-Q/A (the Report). The information contained in this Report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Report and in our other reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2004, 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 our expected sales and operating results, market acceptance of our product, our ability to protect our intellectual property and succeed in our current patent litigation, our ability to attract and retain key personnel, 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. Our actual results could differ materially from those anticipated in the forward looking statements based on a variety of factors, including, among others: market acceptance of new products, continued acceptance of existing products, the timing of projects due to the variability in size, scope and duration of projects, clinical study results which lead to reductions or cancellations of projects, obtaining regulatory approvals for new products, regulatory delays, the availability of competitive products, risks associated with competition and competitive pricing pressures, economic conditions generally, any of which may cause revenues and income to fall short of anticipated levels, and other factors, including estimates made by management with respect to our critical accounting policies, adverse results in litigation, general economic conditions and regulatory developments not within our control and other risks detailed from time to time in the reports filed by us with the SEC, including our annual report on Form 10-K. 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

The following discussion and analysis gives effect to the restatements described in the Explanatory Note to this Form 10-Q/A and in Note 3 to our unaudited consolidated financial statements contained herein. Accordingly, certain of the data set forth in this section is not comparable to discussion and data in our previously filed annual and quarterly reports for the corresponding periods.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported. See the discussion of significant accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2004 as well as the Summary of Significant Accounting Policies in Note 2 to the unaudited Consolidated Financial Statements included in this report. For the quarter ended June 30, 2004, there were no unusual uncertainties of a material nature involved in the application of these principles nor any unusual, material variation in estimates related to these principles.

Overview

We are one of the world s leading dental laser companies. We design, manufacture and market proprietary dental laser systems that are designed to allow dentists, oral surgeons and other specialists to perform a broad range of common dental procedures, including cosmetic applications. We believe our systems provide superior performance for many types of dental procedures, with less pain and faster recovery times than are generally achieved with drills and other dental instruments. We have clearance from the U.S. Food and Drug Administration to market our laser systems in the United States. We also have the approvals necessary to sell our laser systems in Canada, the European Union and other international markets. Since 1998, we have sold more than 2,800 Waterlase systems and approximately 3,800 laser systems in total in over 25 countries.

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

In January 2004, we acquired PAClive from Discus Dental, Inc. for $70,000. Assets acquired include trademarks and a customer list, which were recorded as an increase to intangible assets. PAClive is one of the leading live-patient, hands-on continuing dental education programs in the United States. The addition of PAClive is part of our commitment to education as a means of demonstrating the benefits of lasers in dentistry.

Table of Contents

In February 2004, we received clearance from the Food and Drug Administration for several new bone, periodontal and soft tissue procedures: osteoplasty and osseous recontouring (removal of bone to correct osseous defects and create physiologic osseous contours); ostectomy (resection of bone to restore bony architecture, resection of bone for grafting, etc.); osseous crown lengthening; flap preparation incision of soft tissue to prepare a flap and expose unerupted teeth (hard and soft tissue impactions); full thickness flap; partial thickness flap; split thickness flap; removal of granulation tissue from bony defects; and laser soft tissue curettage of the post-extraction tooth sockets and the periapical area during apical surgery. Additionally, we received clearance for our Waterlase system to perform soft tissue curettage. Our LaserSmile diode laser was previously cleared for laser soft tissue curettage in October 2003.

In March 2004, we leased additional office and manufacturing space next door to our headquarters in San Clemente, California. This facility gives us added capacity in manufacturing, customer support, and marketing to support our continued growth. This move brings our leased facilities in the U.S. to approximately 40,000 sq. ft. in addition to 20,000 sq. ft. of space we own in Germany.

Three and six months ended June 30, 2004 (restated) compared with three and six months ended June 30, 2003 (restated)

In the second quarter and first half of 2004 we saw a continuation of the strong increase in demand that we have been experiencing. Operating revenues increased for the second quarter and first half of 2004 by 42.5% and 49.8%, respectively, compared to the same periods of 2003. Our priority continues to be on market penetration, which we believe is crucial given the large size of the potential market (over 500,000 practicing dentists in the developed countries of the world), the low penetration of laser technology in dentistry, which we believe to be less than 2% of dentists in the United States and other developed countries, and our current position as one of the market leaders. Based on the sales results for the first six months, we now expect sales for 2004 to be in the range of approximately $68.0 million to $69.0 million, compared to $49.0 million in 2003.

Operating income for the second quarter and first half of 2004 was $1.2 million and $2.3 million, respectively, compared to $1.0 million and $1.9 million for the same periods of 2003. The increase in operating income for the second quarter and first half of 2004 is related to higher operating expenses in all functional areas of our business as a result of our overall growth during the past twelve months. Additionally, we have experienced higher operating expenses due to increases in marketing promotions and general and administrative expenses related to higher legal and professional fees, insurance costs and stockholder communication expenses associated with our proxy and annual report distribution. Legal fees include costs related to the Diodem patent litigation. While the legal costs of this litigation have affected and are expected to continue to affect our operating margin this year, we believe that our technology and products do not infringe any valid patent rights owned by Diodem, and we intend to vigorously defend against Diodem s infringement claims and pursue our claims against Diodem.

Net income for the second quarter and first half of 2004 was $853,000 and $1.5 million, respectively, with earnings per diluted share of $0.03 and $0.06, respectively. Net income included a provision for income tax expense of $565,000 and $973,000, respectively. Income taxes will not be payable, subject to alternative minimum tax, until we have utilized our net operating loss carryforwards, which were approximately $32.4 million as of December 31, 2003. Net income for the second quarter and first half of 2003 was $1.1 million and $2.0 million, respectively, or $0.05 and $0.09 per diluted share, respectively.

In May 2004, we introduced the Diolase Plus, our first dental laser product that results from the integration of the American Dental Laser value platform we acquired in May 2003 with our own technology. The DIOLASE PLUS is being marketed as an entry level laser with applications in cosmetic, soft tissue and periodontal dentistry.

The completion of our public offering of 2.5 million shares of common stock in March 2004 resulted in net proceeds of approximately $41.9 million and strengthened our financial position and liquidity. We intend to use the majority of this capital over the next several years to support our expected continued growth. In addition, our Board of Directors recently approved a stock repurchase program which we believe is a use of capital that can enhance stockholder value. Therefore, in July 2004, we announced a stock repurchase program to acquire up to 1.25 million shares from time to time in the open market or through privately negotiated transactions over the next 12 months. As of July 30, 2004 we have repurchased approximately 861,000 shares at an average price of $9.08 per share. Also in July 2004, the Board of Directors established a dividend policy that will remain in effect for an indefinite period of time and pays a regular cash dividend of $0.01 per share every other month, when declared. The first dividend will be payable August 30, 2004 to stockholders of record on August 16, 2004. Also in August 2004, the Board of Directors authorized the repurchase of an additional 750,000 shares of our common stock, increasing the total share repurchase program to 2.0 million shares of our common stock. These additional shares may be purchased from time to time on the