BIOLASE TECHNOLOGY INC
Form 10-Q/A
July 19, 2005
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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.

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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.

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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.

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BIOLASE TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	RESTATED 2004	RESTATED 2003	RESTATED 2004	RESTATED 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.

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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.

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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

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

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.

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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.

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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.

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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				