CNA FINANCIAL CORP
Form 424B5
August 04, 2006
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-127544

PROSPECTUS SUPPLEMENT

(To prospectus dated September 14, 2005)

$750,000,000

CNA Financial Corporation

$400,000,000 6.00% Notes due 2011

$350,000,000 6.50% Notes due 2016

We will pay interest on the notes on February 15 and August 15 of each year, beginning on February 15, 2007. The 2011 notes will mature on August 15, 2011, and the 2016 notes will mature on August 15, 2016. We may redeem any or all of the notes at any time at a make whole redemption price as described in this prospectus supplement.

The notes represent our unsecured and unsubordinated debt and rank equally with all our other unsecured and unsubordinated indebtedness. The notes will be issued only in registered form in denominations of $2,000 and integral multiples of $1,000.

Investing in the notes involves risks. See Risk Factors beginning on page S-6 and on page 9 of our Annual Report on Form 10-K for the year ended December 31, 2005, which is incorporated herein by reference.

	Per 2011 Note	Total	Per 2016 Note	Total
Public offering price (1)	99.525%	$ 398,100,000	99.468%	$ 348,138,000
Underwriting discount	0.600%	$ 2,400,000	0.650%	$ 2,275,000
Proceeds, before expenses, to CNA Financial Corporation	98.925%	$ 395,700,000	98.818%	$ 345,863,000

(1) Plus accrued interest from August 8, 2006, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The notes will be ready for delivery in book-entry form only through The Depository Trust Company, Clearstream or Euroclear, as the case may be, on or about August 8, 2006.

Joint Book-Running Managers

Citigroup **Lehman Brothers**

The date of this prospectus supplement is August 3, 2006.

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

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ABOUT THIS PROSPECTUS SUPPLEMENT

All references to CNA, we, our, or us in this prospectus supplement or the accompanying prospectus are to CNA Financial Corporation.

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and certain other matters. The second part, the prospectus, gives more general information about us and the notes offered hereby. Generally, when we refer to the prospectus, we are referring to both parts of this document combined. To the extent the description of the notes in this prospectus supplement differs from the description of the notes in the accompanying prospectus, you should rely on the information in this prospectus supplement. You should rely only on the information contained in, or incorporated by reference in, this prospectus supplement and the accompanying prospectus. Neither we nor any underwriter has authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. The information which appears in this prospectus supplement, the accompanying prospectus and any document incorporated by reference may only be accurate as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since the date of such information.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. Our Securities and Exchange Commission filings are available to the public over the Internet at the Securities and Exchange Commission s web site at http://www.sec.gov. You may also read and copy any document we file at the Securities and Exchange Commission s public reference room at 100 F. Street, N.E., Washington, D.C. 20549. You can call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room.

Our common stock is listed on the New York Stock Exchange, the Chicago Stock Exchange and NYSE Arca (formerly known as the Pacific Exchange). You also can find copies of our Securities and Exchange Commission filings at the offices of these stock exchanges at the addresses listed below:

- New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005;
- Chicago Stock Exchange, Inc., 440 South LaSalle Street, Chicago, Illinois 60603; and
- NYSE Arca, Inc., 100 South Wacker Drive, Suite 1800, Chicago, Illinois 60606.

The Securities and Exchange Commission allows us to disclose certain information to you in this prospectus supplement by referring you to documents previously filed with the Securities and Exchange Commission that include such information. This process is generally referred to as incorporating by reference. The information incorporated by reference is an important part of this prospectus supplement, and information that we file later with the Securities and Exchange Commission will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the Securities and Exchange Commission under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 until this offering is terminated.

- Our annual report on Form 10-K for the year ended December 31, 2005;
- Our quarterly report on Form 10-Q for the quarter ended March 31, 2006;
- Our quarterly report on Form 10-Q for the quarter ended June 30, 2006; and

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Our current reports on Form 8-K dated February 8, 2006 (filed on February 13, 2006), dated February 8, 2006 (filed on February 14, 2006), dated February 12, 2006 (filed on February 16, 2006, with respect to Item 4.02(a) only, and as amended by our current report on Form 8-K/A dated February 12, 2006 (filed on April 4, 2006)), dated March 6, 2006 (filed on March 8, 2006), dated April 19, 2006 (filed on April 19, 2006), dated August 1, 2006 (filed on August 1, 2006, with respect to Item 8.01 only) and dated August 1, 2006 (filed on August 3, 2006).

You may request a copy of these filings at no cost, by writing or telephoning us at the following address:

Office of the General Counsel

CNA Financial Corporation

333 South Wabash Avenue

Chicago, Illinois 60604

(312) 822-5000

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THE COMPANY

We are a global insurance organization serving businesses and individuals with a broad range of commercial property and casualty insurance products and insurance-related services. We are primarily focused on small and mid-size businesses, and architects, engineers, lawyers, healthcare professionals, financial intermediaries and corporate directors and officers. In 2005, we wrote approximately $8 billion of annual net premiums. We are the country s seventh largest commercial insurance writer and the 14th largest property casualty company, based on 2004 statutory net written premiums (the latest information for which rankings are available). Our common stock is listed on the New York Stock Exchange, the Chicago Stock Exchange and NYSE Arca (formerly known as the Pacific Exchange) and also trades on the Philadelphia Stock Exchange. The trading symbol for our common stock is CNA. As of June 30, 2006, Loews Corporation (Loews) owned approximately 91% of our outstanding common stock and 100% of our Series H Cumulative Preferred Stock. As discussed under Retirement of Series H Cumulative Preferred Stock, we expect to use a portion of the proceeds of this offering as partial consideration for the repurchase of the Series H Cumulative Preferred Stock from Loews.

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THE OFFERING

Issuer	CNA Financial Corporation.
Notes offered	$400,000,000 aggregate principal amount of 6.00% Notes due 2011.
	$350,000,000 aggregate principal amount of 6.50% Notes due 2016.
	The 2011 notes and the 2016 notes will each constitute a new series of securities. The 2011 notes and the 2016 notes will constitute separate series under the indenture governing the notes.
Maturity date	2011 notes: August 15, 2011.
	2016 notes: August 15, 2016.
Interest rate	2011 notes: 6.00% per year.
	2016 notes: 6.50% per year.
Interest payment dates	2011 notes: February 15 and August 15 of each year, beginning February 15, 2007. Interest on the 2011 notes will accrue from August 8, 2006.
	2016 notes: February 15 and August 15 of each year, beginning February 15, 2007. Interest on the 2016 notes will accrue from August 8, 2006.
Ranking	The notes will be our unsecured, unsubordinated obligations and will rank equally in right of payment with all our other unsubordinated debt. The notes will be effectively junior to the debt and other liabilities of our subsidiaries. See Description of Notes.
Optional redemption	We may redeem some or all of the notes at any time at the respective make-whole redemption prices discussed under the caption Description of Notes Optional Redemption.
Form and denomination	The notes will be issued in fully registered form in denominations of $2,000 and in integral multiples of $1,000.
Further issues	We may from time to time, without the consent of the holders of the notes, issue additional senior debt securities having the same ranking and the same interest rate, maturity and other

	terms as the notes of either series offered hereby except for the issue price and issue date and, in some cases, the first interest payment date. See Description of Notes Further Issuances.
Use of proceeds	The net proceeds, after deducting the underwriter s discounts and commissions but before deducting other estimated offering expenses payable by us, from the offering will be approximately $741.6 million. We intend to use the proceeds of this offering as partial consideration for the repurchase of the Series H Cumulative Preferred Stock from Loews and to repay at maturity our 6.75% notes due November 15, 2006. See Use of Proceeds.

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RISK FACTORS

Our business faces significant risks. The risks described below and in our Annual Report on Form 10-K for the year ended December 31, 2005 may not be the only risks we face. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. You should carefully consider and evaluate all of the information included or incorporated by reference into this prospectus supplement and the accompanying prospectus, including the risk factors listed below, before deciding whether to invest in our notes.

Risks related to the offering

Loews owns a majority of our common stock and has the power to elect our board of directors and influence our affairs.

Loews beneficially owned approximately 91% of our outstanding common stock as of June 30, 2006 and, on a pro forma basis after giving effect to the issuance of common stock in the public offering and to Loews in a private placement, Loews will beneficially own approximately 89% of our outstanding common stock. As a result, Loews has the ability to elect our entire board of directors and determine the outcome of other matters submitted to our shareholders, such as the approval of significant transactions, and otherwise to influence our affairs.

We may not be able to complete the repurchase of our Series H Cumulative Preferred Stock.

We have agreed to repurchase all of our outstanding Series H Cumulative Preferred Stock from Loews, with part of the net proceeds of this offering to be used as a portion of the consideration for such repurchase. The repurchase of the Series H Cumulative Preferred Stock is conditioned upon our completion of this offering and a public offering of our common stock, each of which will be used to fund a portion of the consideration for such repurchase. This offering is not conditioned upon the completion of the proposed repurchase. There can be no assurance that such public offering of our common stock will be completed and, therefore, the Series H Cumulative Preferred Stock may remain outstanding. If the conditions to the repurchase of the Series H Cumulative Preferred Stock are not satisfied or waived, we expect to use the net proceeds of this offering for other purposes. There can be no assurance that any such alternative use of the proceeds of this offering would result in benefits to our shareholders to the same extent as the proposed repurchase of the Series H Cumulative Preferred Stock.

You cannot be sure that an active trading market will develop for the notes.

The notes are new issues of securities and there are no established trading markets for the notes. We do not intend to apply to list the notes for trading on any securities exchange or to arrange for quotation on any automated dealer quotation system.

As a result of this and the other factors listed below, an active trading market for the notes may not develop, in which case the market price and liquidity of the notes may be adversely affected.

In addition, you may not be able to sell your notes at a particular time or at a price favorable to you. Future trading prices of the notes will depend on many factors, including:

- our operating performance and financial condition;
- our prospects or the prospects for companies in our industry generally;
- the interest of securities dealers in making a market in the notes;
- the market for similar securities;
- prevailing interest rates; and

the risk factors described in Item 1A of our annual report on Form 10-K for the year ended December 31, 2005.

We have been advised by the underwriters that they intend to make a market for the notes, but they have no obligation to do so and may discontinue market-making at any time without providing any notice.

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FORWARD-LOOKING STATEMENTS

Each of this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference in this prospectus supplement and the accompanying prospectus contain a number of forward-looking statements which relate to anticipated future events rather than actual present conditions or historical events. You can identify forward-looking statements because generally they include words such as believes, expects, intends, anticipates, estimates, and similar expressions. Forward-looking statements in this report include any and all statements regarding expected developments in our insurance business, including losses and loss reserves for asbestos, environmental pollution and mass tort claims which are more uncertain, and therefore more difficult to estimate than loss reserves respecting traditional property and casualty exposures; the impact of routine ongoing insurance reserve reviews we are conducting; our expectations concerning our revenues, earnings, expenses and investment activities; expected cost savings and other results from our expense reduction and restructuring activities; and our proposed actions in response to trends in our business. Forward-looking statements, by their nature, are subject to a variety of inherent risks and uncertainties that could cause actual results to differ materially from the results projected in the forward-looking statement. We cannot control many of these risks and uncertainties. Some examples of these risks and uncertainties are:

- general economic and business conditions, including inflationary pressures on medical care costs, construction costs and other economic sectors that increase the severity of claims;
- changes in financial markets such as fluctuations in interest rates, long-term periods of low interest rates, credit conditions and currency, commodity and stock prices;
- the effects of corporate bankruptcies, such as Enron and WorldCom, on capital markets, and on the markets for directors and officers and errors and omissions coverages;
- changes in foreign or domestic political, social and economic conditions;
- regulatory initiatives and compliance with governmental regulations, judicial decisions, including interpretation of policy provisions, decisions regarding coverage and theories of liability, trends in litigation and the outcome of any litigation involving us, and rulings and changes in tax laws and regulations;
- effects upon insurance markets and upon industry business practices and relationships of current litigation, investigations and regulatory activity by the New York State Attorney General s office and other authorities concerning contingent commission arrangements with brokers and bid solicitation activities;
- legal and regulatory activities with respect to certain non-traditional and finite-risk insurance products, and possible resulting changes in accounting and financial reporting in relation to such products, including our restatement of financial results in May of 2005 and our relationship with an affiliate, Accord Re Ltd., as disclosed in connection with that restatement;
- regulatory limitations, impositions and restrictions upon us, including the effects of assessments and other surcharges for guaranty funds and second-injury funds and other mandatory pooling arrangements;
- the impact of competitive products, policies and pricing and the competitive environment in which we operate, including changes in our book of business;

product and policy availability and demand and market responses, including the level of ability to obtain rate increases and decline or non-renew under priced accounts, to achieve premium targets and profitability and to realize growth and retention estimates;

development of claims and the impact on loss reserves, including changes in claim settlement policies;

the effectiveness of current initiatives by claims management to reduce loss and expense ratios through more efficacious claims handling techniques;

the performance of reinsurance companies under reinsurance contracts with us;

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results of financing efforts, including the availability of bank credit facilities;

changes in our composition of operating segments;

weather and other natural physical events, including the severity and frequency of storms, hail, snowfall and other winter conditions, as well as of natural disasters such as hurricanes and earthquakes;

man-made disasters, including the possible occurrence of terrorist attacks and the effect of the absence or insufficiency of applicable terrorism legislation on coverages;

the unpredictability of the nature, targets, severity or frequency of potential terrorist events, as well as the uncertainty as to our ability to contain our terrorism exposure effectively, notwithstanding the extension until 2007 of the Terrorism Risk Insurance Act of 2002;

the occurrence of epidemics;

exposure to liabilities due to claims made by insureds and others relating to asbestos remediation and health-based asbestos impairments, as well as exposure to liabilities for environmental pollution, mass tort, construction defect claims and exposure to liabilities due to claims made by insureds and others relating to lead-based paint;

whether a national privately financed trust to replace litigation of asbestos claims with payments to claimants from the trust will be established or approved through federal legislation, or, if established and approved, whether it will contain funding requirements in excess of our established loss reserves or carried loss reserves;

the sufficiency of our loss reserves and the possibility of future increases in reserves;

regulatory limitations and restrictions, including limitations upon our ability to receive dividends from our insurance subsidiaries imposed by state regulatory agencies and minimum risk-based capital standards established by the National Association of Insurance Commissioners;

the risks and uncertainties associated with our loss reserves as outlined in the Critical Accounting Estimates and the Reserves Estimates and Uncertainties sections of the Management s Discussion and Analysis of Financial Condition and Results of Operations section of our quarterly report on Form 10-Q for the quarter ended June 30, 2006;

the level of success in integrating acquired businesses and operations, and in consolidating, or selling existing ones;

the possibility of further changes in our ratings by ratings agencies, including the inability to access certain markets or distribution channels and the required collateralization of future payment obligations as a result of such changes, and changes in rating agency policies and practices; and

the actual closing of contemplated transactions and agreements.

Our forward-looking statements speak only as of the date on which they are made and we do not undertake any obligation to update or revise any forward-looking statement to reflect events or circumstances after the date of the statement, even if our expectations or any related events or circumstances change.

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RETIREMENT OF SERIES H CUMULATIVE PREFERRED STOCK

On December 19, 2002, we sold 7,500 shares of our Series H Cumulative Preferred Stock to Loews Corporation, the holder of approximately 91% of our outstanding common stock as of June 30, 2006, for $750 million. The Series H Cumulative Preferred Stock accrues cumulative dividends at a rate of 8% per year, compounded annually.

The Series H Cumulative Preferred Stock is senior to our common stock as to the payment of dividends and amounts payable upon any liquidation, dissolution or winding up. No dividends may be declared on our common stock until all cumulative dividends on the Series H Cumulative Preferred Stock have been paid. We may not issue any equity securities ranking senior to or on parity with the Series H Cumulative Preferred Stock without the consent of the holders of a majority of the outstanding shares of Series H Cumulative Preferred Stock. The Series H Cumulative Preferred Stock is non-voting and is not convertible into any other securities. The Series H Cumulative Preferred Stock may be redeemed for cash upon the mutual agreement of us and the holders of a majority of the outstanding shares of the Series H Cumulative Preferred Stock at a redemption price equal to the liquidation preference ($750 million), plus all unpaid dividends accrued through the date of redemption. Loews owns all of the outstanding shares of the Series H Cumulative Preferred Stock.

On August 1, 2006, we entered into a Series H Cumulative Preferred Stock Retirement Agreement with Loews in which we agreed to repurchase all of the shares of Series H Cumulative Preferred Stock held by Loews for cash at a price equal to the liquidation preference plus all unpaid dividends accrued through the closing date, or approximately $993 million assuming that the repurchase closes on August 8, 2006. The consideration for the Series H Cumulative Preferred Stock will be financed with a portion of the net proceeds of this offering, the issuance by us of 7 million shares of our common stock in a public offering, and issuance by us of approximately 7.86 million shares of our common stock in a private placement to Loews. We expect to receive net proceeds of approximately $500 million on a combined basis from the public and private offerings of our common stock. On August 1, 2006, we entered into an agreement with the underwriter with respect to the public offering of 7 million shares of our common stock, which is subject to usual closing conditions. We will retire all of the Series H Cumulative Preferred Stock following the repurchase from Loews. For a discussion of the risk that the repurchase of Series H Cumulative Preferred Stock may not be completed, see Risk Factors We may not be able to complete the repurchase of our Series H Cumulative Preferred Stock.

At the closing of the repurchase, we will enter into a Registration Rights Agreement with Loews under which it can require us to file up to three registration statements that would permit it to sell up to approximately 7.86 million shares of our common stock that it holds in public offerings, regardless of how they were acquired. Under the agreement, Loews also will have the right to request the inclusion of those shares in certain registration statements that we may file in the future.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of consolidated earnings to fixed charges for the periods indicated. For purposes of computing this ratio, earnings consist of income from continuing operations before income taxes and minority interests in consolidated subsidiaries, plus fixed charges. Earnings also exclude undistributed income of equity investees. Fixed charges consist of interest on debt, interest credited to policyholders and that portion of operating lease rental expense which is deemed to be an interest factor for such rentals.

	Six Months Ended June 30,			Year Ended December 31,					
	Pro forma 2006	2006	2005	Pro forma 2005	2005	2004	2003	2002	2001
Ratio of earnings to fixed charges	7.1(a)	8.3	6.4	1.3(a)	1.5	3.0	(b)	2.4	(b)

(a) As adjusted to give effect to this offering and the use of the net proceeds therefrom to retire existing preferred stock and existing debt.

(b) For the years ended December 31, 2003 and 2001, earnings were insufficient to cover fixed charges by $2,395 million and $2,257 million, respectively.

USE OF PROCEEDS

We intend to use a portion of the proceeds of this offering, which after paying underwriting discounts and transaction expenses we expect to be approximately $740.6 million, as partial consideration for the repurchase of the Series H Cumulative Preferred Stock from Loews. The balance of the consideration to be paid to Loews will be financed with net proceeds of approximately $500 million from issuing 7 million shares of our common stock in a public offering and approximately 7.86 million shares of our common stock in a private offering to Loews at the per share price paid by the underwriters to us for the shares being offered in the public offering. See Retirement of Series H Cumulative Preferred Stock.

We also intend to use a portion of the proceeds to repay at maturity up to $250 million in aggregate principal amount of our 6.75% notes due November 15, 2006. Pending the application of the net proceeds of the offering, we intend to invest such proceeds in short-term interest bearing investments.

To the extent the proceeds of this offering are not used as described above, the proceeds of this offering will be used for general corporate purposes.

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CAPITALIZATION

The following table shows our consolidated capitalization as of June 30, 2006:

- on a historical basis; and
- as adjusted to give effect to this offering and the use of the net proceeds therefrom as discussed under Use of Proceeds and to give effect to the public and private offerings of our common stock as discussed under Retirement of Series H Cumulative Preferred Stock and the use of the net proceeds therefrom.

You should read this table in conjunction with our consolidated financial statements and related notes which are incorporated by reference in this prospectus supplement.

	June 30, 2006	
	Actual	As Adjusted
	(in millions of dollars)	
Short-term debt:		
Current portions of long-term debt	$ 250	$
Long-term debt (net of unamortized discount):		
Credit facility CNA Surety, due June 30, 2008	$ 20	$ 20
Debenture CNA Surety, face amount of $31, due April 29, 2034	31	31
Senior notes:		
6.750%, face amount of $250, due November 15, 2006	250	
6.450%, face amount of $150, due January 15, 2008	149	149
6.600%, face amount of $200, due December 15, 2008	199	199
8.375%, face amount of $70, due August 15, 2012	69	69
5.850%, face amount of $549, due December 15, 2014	546	546
6.950%, face amount of $150, due January 15, 2018	149	149
6.000%, face amount of $400, due August 15, 2011		398
6.500%, face amount of $350, due August 15, 2016		348
Debenture, CNAF, 7.250%, face amount of $243, due November 15, 2023	241	241
Other debt, 1.000%-6.600%, due through 2019	25	25
Total debt	$ 1,679	$ 2,175
Less: current portion of long-term debt	(250)	
Total long-term debt	$ 1,429	$ 2,175
Stockholders equity:		
Preferred stock (12,500,000 shares authorized) Series H Issue (no par value; $100,000 stated value, 7,500 shares issued and outstanding, actual; no shares issued and outstanding, as adjusted)	$ 750	$
Common stock ($2.50 par value; 500,000,000 shares authorized; 258,177,285 shares issued and 256,007,095 shares outstanding, actual; 273,040,543 shares issued and 270,870,353 shares outstanding, as adjusted)	645	682
Additional paid-in capital	1,703	2,165
Retained earnings	6,089	5,846
Accumulated other comprehensive loss	(127)	(127)
Treasury stock (2,170,190 shares, actual and as adjusted), at cost	(67)	(67)
Notes receivable for the issuance of common stock	(58)	(58)
Total stockholders equity	$ 8,935	$ 8,441
Total capitalization	$ 10,614	$ 10,616

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SELECTED CONSOLIDATED FINANCIAL DATA

Our selected consolidated financial data presented below as of and for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 have been derived from our audited consolidated financial statements.

The selected consolidated financial information as of and for the six months ended June 30, 2006 and 2005 are unaudited and have been derived from our unaudited condensed consolidated financial statements and include all adjustments (consisting of normal recurring adjustments), which are, in our opinion, necessary for a fair presentation of our financial position at those dates and results of operations for those periods. Our results of operations for the six months ended June 30, 2006 will not necessarily be indicative of our results for the year.

You should read this selected consolidated financial information in conjunction with our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2005, and the unaudited condensed consolidated financial statements in our Quarterly Report on Form 10-Q for the period ended June 30, 2006, each of which is incorporated by reference in this prospectus supplement and the accompanying prospectus, and Management s Discussion and Analysis of Financial Condition and Results of Operations for those periods, which are contained in those documents.

	As of and for the Six Months Ended June 30,		As of and for the Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
(in millions, except per share data and ratios)							
Results of Operations							
Revenues	$ 4,913	$ 4,934	$ 9,862	$ 9,924	$ 11,715	$ 12,293	$ 13,097
Income (loss) from continuing operations	$ 476	$ 466	$ 243	$ 446	$ (1,419)	$ 263	$ (1,550)
Income (loss) from discontinued operations, net of tax	(8)						

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PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees billed to us for professional services rendered by BDO Seidman, LLP for the fiscal years ended December 31, 2007 and 2006.

	Fiscal Year Ended December 31, 2007	Fiscal Year Ended December 31, 2006
Audit Fees	$ 1,112,355	$ 1,252,834
Audit-Related Fees	15,667(1)	0
Tax Fees	0	0
All Other Fees	0	0
Total	$ 1,128,022	$ 1,252,834

(1) Audit-related fees include professional services rendered in connection with the preparation of a Form S-3 registration statement and a Form S-8 registration statement filed with the SEC.

Determination of Independence

In considering the nature of the services provided by our independent registered public accounting firm, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with our independent registered public accounting firm and our management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

Pre-Approval Policy

According to policies adopted by the Audit Committee and ratified by our Board, to ensure compliance with the SEC s rules regarding auditor independence, all audit and non-audit services to be provided by our independent registered public accounting firm must be pre-approved by the Audit Committee. This policy generally provides that we will not engage any independent registered public accounting firm to render audit or non-audit services unless the service is specifically approved in advance by the Audit Committee.

From time to time, the Audit Committee may pre-approve specified types of services that are expected to be provided to us by our independent registered public accounting firm during the next 12 months. Any such pre-approval will be detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount. In providing any pre-approval, the Audit Committee considers whether the services to be approved are consistent with the SEC s rules on auditor independence.

All fees paid to BDO Seidman, LLP were pursuant to engagements pre-approved by the Audit Committee, and none of those engagements made use of the exception to pre-approval contained in Regulation S-X, Rule 2-01(c)(7)(i)(C).

OTHER MATTERS

We know of no other matters that will be presented for consideration at our annual meeting. If any other matters properly come before our annual meeting, it is intended that shares represented by proxies will be voted with respect thereto in accordance with the best judgment and in the discretion of the proxy holders. The enclosed proxy gives Jake St. Philip and Frederick M. Capallo, or any of them, discretionary authority to vote your shares in accordance with their best judgment with respect to all additional matters that might come before the Annual Meeting.

EXECUTIVE COMPENSATION

Our Executive Officers

The following table sets forth certain information regarding our executive officers as of March 28, 2008:

Name	Age	Position
Federico Pignatelli	55	Director, Chairman Emeritus and President
Jake St. Philip	55	Director and Chief Executive Officer
Frederick M. Capallo	48	Interim Chief Financial Officer and Secretary

In 2007 and early 2008, the following changes occurred within our executive officer team:

on November 5, 2007, Jeffrey W. Jones was terminated from his position as President and Chief Executive Officer;

on November 5, 2007, Federico Pignatelli was appointed interim Chief Executive Officer. Mr. Pignatelli is a member of our Board of Directors where he serves as Chairman Emeritus;

on November 5, 2007, Keith G. Bateman was terminated from his position as Executive Vice President, Global Sales and Marketing;

on January 2, 2008, Richard L. Harrison, our Executive Vice President, Chief Financial Officer and Secretary, resigned to pursue other interests;

on January 2, 2008, Jake St. Philip was appointed Chief Executive Officer and on January 7, 2008, he was also appointed as a director;

on January 2, 2008, Federico Pignatelli resigned from the position of interim Chief Executive Officer in connection with the appointment of Mr. St. Philip as Chief Executive Officer, but will serve in the position of President for 2008; and

on January 30, 2008, Frederick M. Capallo was appointed interim Chief Financial Officer. Mr. Capallo had been serving as our Corporate Controller since November 2006.

The executive officers are appointed by our Board on an annual basis and serve at the discretion of our Board, subject to the terms of any employment agreement with us, until their earlier resignation or removal. There are no family relationships among any of the directors or executive officers. The following is a brief description of the present and past business experience of Mr. Capallo. The biographies of Messrs. Pignatelli and St. Philip appear earlier in this Proxy Statement under Proposal One Election of Directors.

Frederick M. Capallo has served as interim Chief Financial Officer since February 2008 and Corporate Controller since November 2006. From May 2006 to November 2006, Mr. Capallo worked with the Company as a consultant. From 1995 until 2005, Mr. Capallo was Director of Corporate Accounting for Irvine-based Interpore International, Inc., a designer, manufacturer and distributor of orthopedic products including spinal implants, bone graft material and

minimally invasive products. At Interpore, Mr. Capallo managed all functions of the accounting department and directed corporate finance activities including annual and quarterly reports to the SEC. Mr. Capallo is a Certified Public Accountant.

Compensation Discussion and Analysis

This Compensation Discussion and Analysis section discusses the compensation policies and programs for our named executive officers, which consist of: Federico Pignatelli, our President and former interim Chief Executive Officer; Jeffrey W. Jones, our former President and Chief Executive Officer; Richard L. Harrison, our former Executive Vice President and Chief Financial Officer; and Keith G. Bateman, our former Executive Vice President, Global Sales and Marketing. In addition, this Compensation Discussion and Analysis section discusses the compensation arrangements of Jake St. Philip, our Chief Executive Officer, who was hired in January 2008. The Compensation Committee of our Board of Directors is primarily responsible for overseeing

the development and administration of the total compensation program for corporate officers and key executives, and administering our executive incentive bonus and stock plans.

Executive Summary.

Through the third quarter of 2007, we experienced certain challenges that had a negative impact on laser system sales. We believe that our sales were negatively impacted by a variety of sales and marketing execution issues as well as general economic conditions with respect to credit availability that may have resulted in certain potential customers delaying their purchase decisions. In light of these challenges, the Board undertook significant actions in response. Specifically, the Board terminated Mr. Jones, our former Chief Executive Officer, and Mr. Bateman, our former Executive Vice President, Global Sales and Marketing, in November 2007, and recruited Mr. St. Philip to lead BIOLASE as our new Chief Executive Officer in 2008. The Board also appointed Mr. Pignatelli to serve as our President in 2008. Mr. Pignatelli had served as our interim Chief Executive Officer from November 2007 through January 2008, during the period subsequent to Mr. Jones termination and prior to the hiring of Mr. St. Philip. In addition, Mr. Harrison, our former Chief Financial Officer resigned on January 2, 2008 and the Board and the Compensation Committee appointed Mr. Capallo, previously our Corporate Controller, as our interim Chief Financial Officer. As of January 2008, the Board has been actively seeking a candidate to assume the role of a permanent Chief Financial Officer. Consequently, none of the named executive officers, other than Mr. Pignatelli, are currently employed by us.

Compensation Objectives.

It is important that we employ energetic people who are enthusiastic about our mission and our products, and we believe this must start at the top with our executive officers who set an example for the entire company. We are engaged in a very competitive industry, and our success depends upon our ability to attract and retain qualified executive officers by offering them competitive compensation packages. Our compensation programs for our executive officers are designed to attract and retain such key executive officers, and to reward them in a fashion commensurate with our corporate performance and the value created for our stockholders. Our compensation programs also support our short-term and long-term strategic goals and values and reward the individual contributions of our executive officers to our success.

Our policy is to provide our Chief Executive Officer and other executive officers with competitive compensation opportunities that reward their contribution to our financial success and individual performance, while providing financial stability and security. Accordingly, the compensation package for the Chief Executive Officer and other executive officers is mainly comprised of the following compensation elements: (1) a base salary, designed to be competitive with salary levels in the industry and to reflect individual performance; (2) an annual incentive bonus payable in cash and based on the review of certain annual financial and other performance measures, which supports our short-term performance; (3) where appropriate, long-term stock-based incentive awards, which support our long-term performance and are designed to strengthen the mutual interests between our executive officers and our stockholders; and (4) severance payments and other benefits payable upon termination of an officer s employment by us without cause or by our officer for good reason, including following a change of control of us, which promotes executive retention and efforts toward the best interests of the stockholders in the event of an actual or threatened change of control of us. We believe that each of these elements and their combination is necessary to support our overall compensation objectives.

Determination of Compensation Awards.

The Compensation Committee determines the compensation to be paid to our executive officers. The Compensation Committee periodically reviews the total compensation levels and the distribution of compensation among the

compensation elements identified above for each of our executive officers. The Compensation Committee determines the total compensation levels for our executive officers by considering each executive officer s position and responsibilities, the individual s performance of his job-related duties and responsibilities and our financial performance, in the context of our compensation policies and objectives and competitive market data applicable to each executive officer s position. Our approach is to consider competitive

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compensation practices as a relevant factor rather than establishing compensation at specific benchmark percentiles. This enables us to respond to dynamics in the labor market and provides us with flexibility in maintaining and enhancing our executive officers engagement, focus, motivation and enthusiasm for our future.

The principal factors that were taken into account in establishing each executive officer s compensation package for 2007 are described below. The Compensation Committee may in its discretion apply entirely different factors, such as different measures of financial performance, for future years.

In May 2006, our Compensation Committee retained Aon as our compensation consultants. In May 2007, Aon, through its business unit Radford provided a competitive assessment of our executive compensation practices and levels. The Compensation Committee has the sole authority, as it deems appropriate, to retain or terminate the consultant. The consultant reports directly and exclusively to the Compensation Committee. In 2007, neither Radford nor Aon provided any other consulting services for us.

The Compensation Committee made its annual 2007 executive compensation decisions in June 2007, after reviewing the consultant s market analysis. The consultant s May 2007 market analysis provided an assessment of the direct compensation levels (including base salary, target annual incentive compensation, target total cash compensation, long-term incentives and target total direct compensation) for Messrs. Jones, Harrison and Bateman relative to survey data and proxy data. To compile the survey data, the consultant gathered data from the following surveys:

(1) 2007 Radford Executive Survey All technology companies with annual revenues from $50 million to $200 million;

(2) 2007 Radford Stock Level Report All technology companies by job level and base salary; and

(3) 2007 Radford Stock Options as a Percent of Shares Outstanding Report All technology companies with common shares outstanding under 30 million by job level.

To compile the proxy data, the consultant gathered data from proxy statements of the 35 peer group companies listed below. The peer group was divided into two groups and comparative information was separately provided with respect to each group. Peer group companies were (1) medical product companies with annual revenues ranging from $50 million to $100 million; and (2) medical product companies with annual revenues ranging from $50 million to $200 million, which are highlighted by an *. Our revenues and market capitalization fell at approximately the 20th percentile of the peer group companies.

Abaxis, Inc.*	Cutera, Inc.*	I-Flow Corp.*	Palomar Medical Technologies, Inc.*
Allied Healthcare Products, Inc.	Cyberonics, Inc.*	IRIS International, Inc.*	Possis Medical, Inc.*
AngioDynamics, Inc.*	Cynosure, Inc.*	Kensey Nash Corp.*	Quidel Corp.*
Aspect Medical Systems, Inc.*	Del Global Technologies Corp.	Kewaunee Scientific Corp.	Sonic Innovations, Inc.*
Candela Corp.*	Digirad Corp.	Meridian Bioscience, Inc.*	SonoSite, Inc.*
Cantel Medical Corp.*	Exactech, Inc.	Molecular Devices Corp.	SurModics, Inc.*
Cardiac Science Corp.*	E-Z-EM	New Brunswick Scientific Co., Inc.	Synovis Life Technologies, Inc.
Cholestech Corp.*	FoxHollow Technologies, Inc.*	NuVasive, Inc.*	Young Innovations, Inc.*

Clinical Data, Inc.*	HealthTronics, Inc.	Osteotech, Inc.

The Compensation Committee, with the help of the consultant, periodically reviews the composition of the peer group and the criteria and data used in compiling the list, and considers modifications to the group. The Compensation Committee believes that our most direct competitors for executive talent include significantly larger and better-capitalized companies in the medical device industry, comprising a broader range of companies than those with which we usually are compared for purposes of stock performance. The 2007 peer group changed from 2006, primarily due to consolidations in the industry or bankruptcies. In making its 2007 compensation decisions, the Compensation Committee mainly relied on the survey data and used the proxy peer group data as a check.

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Based on the May 2007 consultant s report, we provided our named executive officers with base salaries and total target cash compensation (base salaries plus target bonus opportunities at expected performance) which were around the 50th percentile of our peer group companies, and long-term incentive grants based on grant date fair values which were below the 50th percentile of survey companies.

Components of Compensation.

During the 2007 fiscal year, our executive officers compensation was composed of base salary, annual incentive bonuses, equity compensation, certain perquisites and potential severance payments and other benefits payable upon certain events, including a qualifying termination of the executive officer s employment subsequent to a change of control of us.

Base Salaries.

Our executive officers base salaries are assessed annually by the Compensation Committee, taking into account each officer s position and responsibilities, including accomplishments and contributions, experience and tenure. In addition, the Compensation Committee considered the market analysis provided by the consultant. For compensation decisions in 2007 relating to our executive officers other than Mr. Jones, our former President and Chief Executive Officer, our Compensation Committee also considered the recommendations of Mr. Jones.

Utilizing the information gathered by the consultant as to the companies in our industry, the recommendations of Mr. Jones, and the Compensation Committee s own assessment of the aforementioned factors, the following base salary actions were initiated in July 2007:

(1) Mr. Jones annual base salary was increased from $300,000 to $360,000, approximately representing the survey market 50th percentile;

(2) Mr. Harrison s annual base salary was increased from $230,000 to $246,000, approximately representing the survey market 50th percentile; and,

(3) Mr. Bateman s annual base salary was increased from $220,000 to $230,000, approximately representing the survey market 50th percentile.

These increases were approved to bring the executives base salaries closer to the market 50th percentile based on the survey data provided by the consultant, which the Compensation Committee considered to be market competitive. The percentage salary increase for Mr. Jones was greater than that for our other named executive officers because Mr. Jones salary was farther below the 50th percentile than the salaries in place for Mr. Harrison and Mr. Bateman.

Mr. St. Philip s annual base salary was set, at the time of his hire in January 2008, at $350,000 in connection with his employment agreement. His base salary was negotiated and was based on existing compensation levels at his prior place of employment, comparable market data and our compensation goals and objectives. Mr. St. Philip s base salary was compared to the survey data provided by the consultant in May 2007 and the Compensation Committee noted that his base salary was at the 97th percentile of the market 50th percentile, which the Compensation Committee considered to be market competitive. Under the terms of Mr. St. Philip s employment agreement, the Board will review Mr. St. Philip s base salary annually commencing on July 1, 2009.

Mr. Pignatelli received $1 (excludes $23,077 accrued contributed services) in 2007 for his services as our interim Chief Executive Officer. On January 7, 2008, subsequent to our hire of Mr. St. Philip to the position of Chief Executive Officer, Mr. Pignatelli was appointed to the position of President. For his service as President during 2008,

Mr. Pignatelli will receive an annual salary of $150,000. The Compensation Committee approved this amount, which is approximately 40% of Mr. Jones 2007 base salary, in light of Mr. Pignatelli s part-time position.

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Annual Incentive Bonuses.

Our annual incentive bonuses are intended to reward accomplishment of our overall short-term corporate performance and objectives for a fiscal year.

Jones and Harrison. In June 2007, after reviewing the market analysis done by the consultant, the Compensation Committee established the following bonus program for Messrs. Jones and Harrison:

(1) Mr. Jones 2007 annual bonus target for achieving *expected performance* was set at $180,000 (including the guarantee bonus), and for achieving *high performance* was set at $270,000 (including the guarantee bonus). Mr. Jones guaranteed annual bonus, pursuant to his employment agreement, was $50,000; and

(2) Mr. Harrison s 2007 annual bonus target for achieving *expected performance* was set at $120,000 (including the guarantee bonus) and for achieving *high performance* was set at $180,000 (including the guarantee bonus). Mr. Harrison s guaranteed annual bonus, pursuant to his employment agreement, was $50,000.

The annual bonus targets for achieving *expected performance* resulted in total target cash compensation levels that were between the 90th and 110th percentiles of the market 50th percentile based on the survey data provided by the consultant. The Compensation Committee considered this range to be market competitive. The contractual guaranteed bonuses were paid to the executive officers in monthly installments throughout the year, regardless of our corporate performance. Bonus amounts to be awarded in excess of the guaranteed amounts were to be determined based on the achievement of performance criteria approved by the Compensation Committee.

The critical performance areas for the determination of *expected performance* for 2007 for Messrs. Jones and Harrison are shown below.

Criteria for 2007 Expected Performance Bonus

Sales growth (weighted at 20%), including

- Specific 2007 revenue targets
- Domestic (including Canada) system sales growth targets
- International system sales growth targets
- Grow consumables in excess of the overall revenues growth rate

Enhanced profitability and financial condition (weighted at 20%), including

- Increase gross margin
- Net cash neutral or better
- Hold 2007 G&A expenses to increase of no more than 8% over the prior year

Achieving certain R&D milestones (weighted at 20%)

Outstanding corporate governance and internal processes (weighted at 20%), including

Enhanced communications and preparedness

Compliance with Sarbanes-Oxley

Executive team development

Enhanced shareholder value (weighted at 20%), including

Sufficient road show, conferences, targeting

Add sell-side analysts

Improvement in shareholder value metrics

The determination of potential incremental bonuses for achieving *high performance* was based on additional performance criteria, including: exceeding specified revenue targets, adding of at least two sell-side analysts, providing additional revenues streams, achieving certain R&D milestones and progress on certain contractual matters.

Mr. Jones received $45,265 of the guaranteed amount of $50,000 under the bonus program based on his November 5, 2007 termination. Mr. Jones was not eligible for any other payout under the bonus program because of his termination. Mr. Harrison resigned effective January 2, 2008 and was similarly not eligible to receive any payout under the bonus program other than the guaranteed amount of $50,000 because employees need to be employed by us on the date bonuses for the prior year are determined in order for them to be eligible for a performance-based bonus. As Mr. Jones was terminated and Mr. Harrison resigned prior to a determination of payout amounts under the bonus program, the Compensation Committee did not make a determination of whether the bonus program criteria had been met.

Bateman. For the 2007 fiscal year (and prior fiscal years), Mr. Bateman s bonus program was designed to enable him to earn targeted bonus amounts based upon the achievement of targeted revenues. For 2007, Mr. Bateman was entitled to receive a quarterly payment of 0.1125% of our revenues from system and consumable product sales up to and including cumulative revenues of $80 million, after which his incremental bonus was based on a higher percentage for revenues in excess of $80 million. Mr. Bateman received these payments prior to his termination of employment in November 2007. Mr. Bateman s actual bonus amount for the 2007 fiscal year was $46,749, based on our product revenues through the date of his termination. In addition, Mr. Bateman was entitled to receive a $30,000 management by objective (MBO) bonus to be paid annually based on achievement of certain performance criteria, including: improved sales linearity and improved sales processes. Mr. Bateman was not eligible for any portion of the MBO bonus because of his termination in November 2007.

Other Executives. Mr. St. Philip s maximum bonus opportunity for fiscal 2008 was set, at the time of his hire in January 2008, at $225,000 in connection with his employment agreement. His maximum bonus opportunity was negotiated and was based on existing compensation levels at his prior place of employment, comparable market data and our compensation goals and objectives. Mr. St. Philip s maximum bonus opportunity was compared to the survey data provided by the consultant in May 2007 and the Compensation Committee noted that his maximum bonus opportunity resulted in a maximum cash compensation level that was at the 97th percentile of the market 50th percentile for target cash compensation, which the Compensation Committee considered to be market competitive.

Mr. Pignatelli did not receive any bonus for his services as our interim Chief Executive Officer from November 2007 to January 2008.

For 2008, our named executive officers do not receive guaranteed bonuses, car allowances or other perquisites not available to all of our employees, except for Mr. St. Philip who is provided an apartment in Irvine, CA. and Mr. Capallo who was given a $15,000 bonus in 2008 upon assuming the position of interim Chief Financial Officer.

Stock-Based Incentive Awards.

Stock-based incentives are designed to align the interests of our executive officers with those of our stockholders and provide each individual with a significant incentive to manage us from the perspective of an owner with an equity

stake in the business. Stock options allow the officers to acquire shares of our common stock at a fixed price per share (which is the closing sale price of our stock on the grant date) over a specified period of time, generally ten years. Stock options generally become exercisable in a series of monthly installments over a three-year period, contingent upon the officer s continued employment with us. Accordingly, stock options provide a return to the executive officer only if he remains employed by us during the vesting period, and then only if the market price of the shares appreciates over the option term. As such, stock options not only reward our corporate performance but are also a key retention tool. The size of the option

grant to each executive officer, including any grant considered for the Chief Executive Officer and our other named executive officers, is set at a level that is intended to create a meaningful opportunity for stock ownership based on the individual s current position with us, the individual s performance of his job related duties and responsibilities in recent periods and his or her potential for future responsibility and promotion over the option term. The Compensation Committee also takes into account the number of unvested options held by the executive officer in order to maintain an appropriate level of equity incentive for that individual. The relevant weight given to each of these factors varies from individual to individual.

The Compensation Committee granted equity awards to our named executive officers on June 26, 2007 in connection with its determination of our annual cash incentive program goals. The Compensation Committee made its June 2007 determination by taking into account the considerations discussed above as well as information on competing equity compensation levels for executive officers with similar positions at competing companies, as compiled by the Compensation Committee s consultant. Non-qualified options for the purchase of our common stock were granted under the 2002 Stock Incentive Plan to our named executive officers in June 2007 as follows:

Name	**Shares Granted Subject to Time-Based Vesting**	**Exercise Price**
Jeffrey W. Jones	50,000	$ 5.95
Richard L. Harrison	30,000	5.95
Keith G. Bateman	30,000	5.95

Each option has an exercise price equal to the closing price of the stock on the date of the grant, or the most recent closing price if the market is not open on the grant date. Unvested stock options were forfeited in connection with the terminations of the executives employment.

The grant date fair values of these equity awards were at the 46th, 70th and 70th percentiles of the market 50th percentiles for Messrs. Jones, Harrison and Bateman, respectively, based on the survey data provided by the consultant. The Compensation Committee considered this appropriate in light of the recent decreases in the sales performance of the Company. The values of these grants have since significantly decreased as a result of our decrease in stock value. The Compensation Committee may award stock options to our current executive officers on an annual basis in the current and subsequent years. In establishing the appropriate amount of such awards, we expect that the Compensation Committee will continue to take into account data from consultant studies.

At the time of his hire in January 2008, Mr. St. Philip was granted a nonqualified stock option to purchase 450,000 shares of our common stock at an exercise price of $2.89, the fair market value of our stock on the grant date, January 7, 2008. The stock option will vest and become exercisable in twelve equal quarterly installments, commencing on March 31, 2008, subject to Mr. St. Philip s continued employment with us. Mr. St. Philip s new-hire equity value was valued at approximately $730,000 which was approximately twice the market 50th percentile based on the survey data provided by the consultant. The Compensation Committee considered this above-market initial grant as necessary and appropriate to obtain Mr. St. Philip s services.

Policies with Respect to Equity Compensation Award Determinations.

We do not time the award of stock option grants in advance of material announcements in order to achieve lower exercise prices. In the past, we have not granted any equity compensation awards other than stock options. Our policy is that stock options are granted with an exercise price equal to the closing price of our common stock on the date of

grant, and that all option grants are approved in advance of or on the date of the grant. The Secondary Stock Option Committee (consisting of our Chief Executive Officer) is delegated authority by the Board to approve stock option grants in an amount not to exceed 5,000 shares per person and only for newly-hired employees. For stock option grants to new employees, our policy is that they be issued on, and receive an exercise price equal to the closing stock price of our common stock on such employee s start date, presuming that the award was pre-approved by the Secondary Stock Option Committee.

Perquisites and Other Benefits.

Our executive officers are entitled to a few benefits that are not otherwise available to all of our employees. In this regard it should be noted that we do not provide pension arrangements, post-retirement health coverage, or similar benefits for our executives or employees.

Prior to his termination in November 2007, Mr. Jones was provided the full use of a vehicle that was leased by us, and he was reimbursed approximately $5,000 annually for costs associated with commuting to his out-of-state residence. During 2007, Mr. Harrison received a monthly pre-tax car allowance. Prior to his termination in November 2007, Mr. Bateman was provided with a Company-leased apartment which he used, along with another employee, when he worked locally at our headquarters, and rental car, gasoline, personal meal and laundry expenses were reimbursed to Mr. Bateman while working locally at our headquarters. Additionally, the expenses associated with commuting to his out-of-state residence from our headquarters were reimbursed to him. The Compensation Committee determined to provide the above-described personal benefits and perquisites in order to attract and retain highly qualified named executive officers by offering compensation opportunities that are competitive with our peers and are designed to meet the needs of our executives. While employed by us, Messrs. Jones and Bateman considered the ability to continue to reside in their home states an important factor in their job satisfaction, and we desired to encourage their job satisfaction and focused attention on company matters.

At the time of his hire in January 2008, we agreed to provide Mr. St. Philip, who lives in San Diego, CA, with an apartment in Irvine, CA that is reasonable to both the Board and Mr. St. Philip in order to facilitate Mr. St. Philip s work schedule by reducing the amount of time he would otherwise be required to commute to and from our office. Mr. St. Philip does not receive a car allowance.

The Compensation Committee intends to phase out perquisites over time.

Severance and Change of Control Arrangements.

In January 2008, we entered into Separation and General Release Agreements with Messrs. Jones and Bateman relating to their terminations of employment in November 2007 providing for certain severance payments of $374,822 and $187,263, respectively, and payment of certain COBRA premiums for each of Messrs. Jones and Bateman. The Separation and General Release Agreements were negotiated and entered into in connection with the execution of a release and, in the case of Mr. Jones, his resignation from Board service. While the severance payment to Mr. Jones was slightly more than the approximately $360,000 in severance payments he would have been entitled to under his employment agreement following a termination without cause, under the Separation and General Release Agreement, Mr. Jones also agreed to the partial cancellation of a fully vested option to purchase 100,000 shares of our common stock that were part of a prior option to purchase 200,000 shares of common stock granted on December 12, 2005 and that would have otherwise expired on November 5, 2009. In addition, Mr. Jones further agreed to return the car we had leased on his behalf.

We had not previously entered into an employment agreement with Mr. Bateman. We agreed to provide a six month severance payment to Mr. Bateman in order to obtain a release and, after review of our past separation policies for employees, in consideration of the 11 years of services he provided.

Under the terms of Mr. Harrison s employment agreement, entered into on December 12, 2005, if his employment was terminated other than for cause or if he resigned for good reason, Mr. Harrison would have been entitled to receive severance pay in an amount equal to six months of annual base salary. Mr. Harrison s voluntary resignation on January 2, 2008, however, did not entitle him to any severance payment under his employment agreement.

In February 2006, we had entered into change of control arrangements with Messrs. Jones, Harrison and Bateman which provided for severance payments (one-times the officer s then current annual salary plus potential bonus for the current year) and other benefits to the officers if their employment was terminated by us without cause or by the officer for good reason within 18 months following a change of control of us. The agreements were designed to retain our executive officers and provide continuity of management in the event

of an actual or threatened change in the control of us and to ensure that our executive officers compensation and benefits expectations would be satisfied in such event. The double trigger feature, requiring a qualifying termination of employment in connection with the change of control, was considered important to ensure that the executives did not unfairly benefit from a transaction that was in our and our stockholders best interest. A description of the material terms of our change of control arrangements can be found in this proxy statement under Potential Payments Upon Termination or Change in Control. The Compensation Committee believes that such severance and change of control arrangements are reasonable within our market.

Mr. St. Philip s employment agreement, negotiated at the time of his hire in January 2008, also provides for certain severance and change of control benefits. If Mr. St. Philip s employment is terminated other than for cause or if he resigns for good reason, Mr. St. Philip will be entitled to receive severance benefits equal to:

- one year of annual base salary;
- the full amount of his annual performance bonus target for the calendar year in which the effective date of termination occurs;
- twelve months of paid COBRA premiums under our medical and dental benefit plans;
- a $3,000 lump sum cash payment; and
- payment of his premiums under our group life insurance, accidental death and dismemberment and disability benefit plans during the twelve month period following the effective date of termination.

Furthermore, if his employment is terminated without cause or he resigns for good reason and such termination occurs within twelve months of a change in control of us, Mr. St. Philip will be entitled to receive the severance benefits summarized above and Mr. St. Philip s stock granted upon his hiring shall become fully vested and exercisable on the first business day that is at least 60 days after the effective date of termination.

Compliance with Internal Revenue Code Section 162(m).

Section 162(m) of the Internal Revenue Code disallows a tax deduction to publicly held companies for compensation paid to certain of their executive officers to the extent that such compensation exceeds $1.0 million per covered officer in any fiscal year. The limitation applies only to compensation that is not considered to be performance-based. Nonperformance-based compensation paid to our executive officers for the 2007 fiscal year did not exceed the $1.0 million limit per officer, and we do not expect the nonperformance-based compensation to be paid to our executive officers for the 2008 fiscal year to exceed that limit. Our option grants under our 2002 Stock Incentive Plan have been designed to qualify as performance-based compensation.

There are certain circumstances under which the Board and Compensation Committee may decide to exceed the deductibility limit imposed under Section 162(m) or to otherwise pay non-deductible compensation. These circumstances may include maintaining a competitive salary for a named executive officer position or attracting highly qualified executives to join us and to promote their retention with compensation that is not performance based as part of their initial employment offers. As an inducement for Mr. St. Philip to join us as Chief Executive Officer, we granted him a nonqualified stock option to purchase 450,000 shares of our common stock at an exercise price of $2.89 per share, the fair market value of our stock on the grant date, January 7, 2008. The nonqualified stock option grant to Mr. St. Philip was made outside of the 2002 Stock Incentive Plan and does not qualify as a performance award under Section 162(m). Because it is unlikely that the cash compensation payable to any of our executive officers in the foreseeable future will approach the $1.0 million limit, we do not expect to take any action to limit or

restructure the elements of cash compensation payable to our executive officers so as to qualify that compensation as performance-based compensation under Section 162(m). We will reconsider this decision should the individual cash compensation of any executive officer ever approach the $1.0 million level.

Sections 280G and 4999 of the Internal Revenue Code impose certain adverse tax consequences on compensation treated as excess parachute payments. An executive is treated as having received excess parachute payments for purposes of Sections 280G and 4999 of the Internal Revenue Code if he or she

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receives compensatory payments or benefits that are contingent on a change in the ownership or control of a corporation, and the aggregate amount of such contingent compensatory payments and benefits equals or exceeds three times the executive s base salary amount. An executive s excess parachute payments are subject to a 20% excise tax under Section 4999 of the Internal Revenue Code, in addition to any applicable federal income and employment taxes. Also, the corporation s compensation deduction in respect of the executive s excess parachute payments is disallowed under Section 280G of the Internal Revenue Code. If we were to be subject to a change in control, certain amounts received by our executives could be excess parachute payments under Sections 280G and 4999 of the Internal Revenue Code. As discussed under Potential Payments Upon Termination or Change in Control we do not provide our executive officers with tax gross up payments in the event of a change in control.

Summary Compensation Table

The following table shows the compensation earned by, or awarded or paid to, each of our named executive officers for the fiscal year ended December 31, 2007:

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)(4)	Total ($)
Federico Pignatelli President and Former Chief Executive Officer	2007	$ 1(5)	$ 0	$ 0(5)	$ 0	$ 0	$ 1
Jeffrey W. Jones	2007	293,576	45,265	13,302	0	459,474(6)	811,617
Former President and Chief Executive Officer	2006	273,574	110,000	0	0	124,142	507,716
Richard L. Harrison	2007	237,333	50,000	16,312	0	12,000(7)	315,645
Former Executive Vice President, Chief Financial Officer and Secretary	2006	230,000	85,000	0	0	15,506	330,506
Keith G. Bateman	2007	200,256	0	7,978	46,749	268,994(8)	523,977
Former Executive Vice President, Global Sales and Marketing	2006	193,408	0	0	74,702	50,153	318,263

(1) Represents certain guaranteed bonus amounts for Messrs. Jones and Harrison. For 2007, Mr. Jones was paid $45,265 of his $50,000 guaranteed bonus prior to his termination in November 2007. Mr. Harrison was paid his guaranteed bonus of $50,000 for 2007 prior to his resignation from the Company in January 2008. No additional bonus payment is due to Mr. Jones following his termination in November 2007 or Mr. Harrison following his resignation in January 2008. See Compensation Discussion and Analysis Compensation Components Annual Incentive Bonuses.

(2)

For 2007, the amounts shown are the amounts of compensation cost recognized by us in fiscal year 2007 related to grants of stock options in fiscal year 2007, as described in FAS 123R. For a discussion of valuation assumptions, see Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007, excluding any assumptions for forfeitures.

The grant date fair value of the grant of options to purchase shares of our common stock to each of Messrs. Jones, Harrison and Bateman on June 27, 2007 was $159,500, $95,700 and $95,700, respectively, as computed in accordance with FAS 123R. The estimated grant date fair value for these option grants was determined using the Black-Scholes option valuation model with the following assumptions: market price of $5.95, exercise price of $5.95, expected volatility of 59%, risk free interest rate of 4.9%, expected option life of 4.7 years, and expected dividend yield of 0%.

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In December 2005, the Compensation Committee approved the acceleration of vesting of certain unvested stock options granted under our 2002 Stock Incentive Plan that were held by certain of our key employees and officers, including our executive officers. As a result of such acceleration, options granted to 25 persons with respect to 1,337,500 unvested shares of our common stock, including options with respect to 684,178 unvested shares that were held by our executive officers, became fully vested. The acceleration eliminated compensation expense that we would otherwise have recognized in our consolidated statements of operations for the 2006 and subsequent fiscal years with respect to these options in accordance with FAS 123R.

(3) Mr. Bateman s bonus for 2007 was based on a pre-determined percentage of our revenues through the date of his termination in November 2007. No additional bonus payments were due to Mr. Bateman following his termination in November 2007. See Compensation Discussion and Analysis Compensation Components Annual Incentive Bonuses.

(4) Except as set forth in the following notes, represents accrued unused vacation hours for 2007. Our policy is to pay our employees, on an annual basis, accrued unused vacation hours exceeding their permitted banked hours, which varies amongst our employees based on their position with us. Upon an employee s termination, we pay all of the employee s unused vacation hours, including any permitted banked hours.

(5) Mr. Pignatelli was appointed our interim Chief Executive Officer in November 2007 following the termination of our former President and Chief Executive Officer, Jeffrey W. Jones. Mr. Pignatelli was paid $1 (excludes $23,077 accrued contributed services) for such services in 2007. Mr. Pignatelli received no option awards in 2007 for his service as interim Chief Executive Officer. He received an option award prior to November 2007 as part of his director compensation. See Proposal One Director Compensation for compensation associated with his role as one of our directors.

Mr. Pignatelli resigned from his position as interim Chief Executive Officer on January 2, 2008 following the appointment of Jake St. Philip as our Chief Executive Officer. Mr. Pignatelli will serve as our President in 2008 for which he will receive a salary of $150,000.

(6) The amount for 2007 includes $374,822 in severance paid to Mr. Jones in February 2008 pursuant to the terms of a Separation and General Release Agreement we entered into with Mr. Jones on January 30, 2008 in connection with his termination effective November 5, 2007. Other compensation for 2007 also includes $41,537 for the payment of unused accrued vacation hours; $37,839 of incremental costs to us associated with Mr. Jones company-leased automobile, including lease payments, insurance, gasoline and maintenance; and $5,276 in expenses reimbursed to Mr. Jones for commuting to his out-of-state residence.

(7) The amount for 2007 represents $12,000 in car allowance payments.

(8) The amount for 2007 includes $187,263 in severance paid to Mr. Bateman in February 2008 pursuant to the terms of a Separation and General Release Agreement we entered into with Mr. Bateman on January 22, 2008 in connection with his termination effective November 5, 2007. Other compensation for 2007 also includes $49,428 for the payment of unused accrued vacation hours; $13,188, representing one-half of the $26,376 cost to us associated with us maintaining a local apartment used by Mr. Bateman and another employee; $12,034 in travel-related expenses reimbursed to Mr. Bateman associated with commuting to his out-of-state residence; and $7,081 in rental car, gasoline, personal meal and laundry expenses reimbursed to Mr. Bateman while working locally at our headquarters.

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Grants of Plan-Based Awards

The following table presents information regarding annual incentive bonus awards and equity incentive awards granted to the executive officers for fiscal 2007.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			All Other Option Awards: Number of Securities Underlying Options	Exercise on Base Price of Option Awards	Grant Date Fair Value of Option Awards
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	(2)(#)	(3)($)	(4)($)
Federico Pignatelli(5) President and Former Chief Executive Officer	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Jeffrey W. Jones Former President and Chief Executive Officer	6/27/07	(1)	$ 130,000	$ 220,000	50,000	$ 5.95	$ 159,500
Richard L. Harrison Former Executive Vice President, Chief Financial Officer and Secretary	6/27/07	(1)	$ 70,000	$ 130,000	30,000	$ 5.95	$ 95,700
Keith G. Bateman Former Executive Vice President, Global Sales and Marketing	6/27/07	(1)	$ 120,000	(1)	30,000	$ 5.95	$ 95,700

(1) The amounts in these columns represent the range of potential payouts for fiscal year 2007 under the incentive bonus plan based on certain pre-established performance measures described under the caption Compensation Discussion and Analysis Annual Incentive Bonuses. Bonus payouts below and above the *expected performance* level are determined in the Compensation Committee s discretion. Given the departure of these executives, no determinations under the bonus program were made regarding fiscal year 2007 performance. The guaranteed bonuses of $50,000 each to which Messrs. Jones and Harrison were entitled under their employment agreements are not included in these columns. Mr. Jones received $45,265 of his guaranteed amount because he was terminated prior to December 31, 2007. Mr. Harrison resigned effective January 2, 2008 and was similarly not eligible to receive any payout under the bonus program other than his guaranteed amount of $50,000. See the discussion contained in the Summary Compensation Table.

Mr. Bateman s 2007 bonus program was designed to enable him to earn targeted bonus amounts based upon actual revenues. For 2007, Mr. Bateman was entitled to receive a monthly payment of 0.1125% of our revenues from system and consumable product sales up to and including cumulative revenues of $80.0 million, after which he was entitled to higher percentage of these revenues. In addition, Mr. Bateman was entitled to receive a $30,000 management by objective (MBO) bonus to be paid annually based on achievement of certain performance criteria. The target amount shown is based on our targeted revenue for 2007 and the additional MBO bonus amount. There was no maximum or minimum amount under Mr. Bateman s plan. Mr. Bateman s actual bonus amount for the 2007 fiscal year was $46,749, based on our revenues. See the discussion contained in the Summary Compensation Table.

(2) Amounts shown in this column represent stock options granted on June 27, 2007, as described under the caption Compensation Discussion and Analysis Stock Based Incentive Awards.

(3) Each option has an exercise price equal to closing stock price of common stock at the time of grant.

(4) The amounts in this column represent the grant date fair value in accordance FAS 123R. The stock option fair value is $3.19 per share. The estimated grant date fair value for these option grants was determined using the Black-Scholes option valuation model with the following assumptions: market price of $5.95, exercise price of $5.95, expected volatility of 59%, risk free interest rate of 4.9%, expected option life of 4.7 years, and expected dividend yield of 0%.

(5) Not shown is the option grant to Mr. Pignatelli on May 16, 2007 to purchase 15,000 shares of our common stock as part of his 2007 director compensation prior to his appointment as interim Chief Executive Officer. See Proposal One Director Compensation .

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth summary information regarding the outstanding equity awards held by each of our named executive officers at December 31, 2007. We have not granted equity awards other than options in the past.

	Option Awards			
Name	**Number of Securities Underlying Unexercised Options(#)(1) Exercisable**	**Number of Securities Underlying Unexercised Options(#)(1) Unexercisable**	**Option Exercise Price($)**	**Option Expiration Date**
Federico Pignatelli(2)	30,000	0	$ 3.938	5/19/08
President and Former Interim	50,000	0	2.750	3/18/09
Chief Financial Officer	30,000	0	5.240	5/23/12
	30,000	0	11.070	4/29/13
	30,000	0	11.960	5/26/14
	30,000	0	5.810	11/15/15
	30,000	0	10.400	4/20/16
	7,500	7,500	5.940	5/16/17
Jeffrey W. Jones(3)	404,000	0	2.125	12/15/08
Former President and	100,000	0	2.125	11/5/09
Chief Executive Officer	300,000	0	5.170	11/5/09
	200,000	0	14.010	11/5/09
	50,000	0	8.110	2/5/08
	4,166	0	5.950	2/5/08
Richard L. Harrison(4)	250,000	0	7.200	4/2/08
Former Executive Vice President,	4,999	25,001	5.950	4/2/08
Chief Financial Officer and Secretary				
Keith G. Bateman(5)	47,700	0	2.156	1/8/09
Former Executive Vice President,	75,000	0	2.156	11/5/09
Global Sales and Marketing	100,000	0	5.170	2/5/08
	75,000	0	14.010	2/5/08
	25,000	0	6.660	2/5/08
	2,499	0	5.950	2/5/08

(1) In December 2005, the Compensation Committee approved the acceleration of vesting of certain unvested stock options granted under our 2002 Stock Incentive Plan that were held by certain of our key employees and officers, including our named executive officers. As a result of such acceleration, options granted to our named executive officers prior to 2006 became fully vested. The Compensation Committee imposed restrictions on shares of our common stock that could be acquired by such persons upon exercise of any such accelerated

options that prevent the sale of such shares (other than to satisfy applicable withholding taxes) before such time as vesting would otherwise have taken place.

Options granted subsequent to December 31, 2005 to Messrs. Jones and Bateman ceased vesting effective November 5, 2007, the date of their respective terminations from the Company. Messrs. Jones and Bateman forfeited, in the aggregate, vested and unvested options to purchase 45,834 and 27,501 shares, respectively, as a result of their termination.

(2) Options held by Mr. Pignatelli were granted to him as part of his director compensation. See Director Compensation discussion under Proposal One Election of Directors .

(3) On January 30, 2008, in connection with his termination effective November 5, 2007, Mr. Jones agreed to the cancellation of fully vested options to purchase 100,000 shares of our common stock from the tranche of 200,000

options granted to Mr. Jones on December 12, 2003 with an exercise price of $14.01. On January 30, 2008 our closing stock price was $3.67. No other changes were made to the terms of Mr. Jones outstanding options. The option expiration dates included in the table have been adjusted to reflect the required expiration of each option upon employee termination pursuant to the terms of each of Mr. Jones option grants. Specifically, options granted subsequent to December 31, 2003 expire three months from the date of termination while all other options expire the earlier of two years from the date of termination or ten years from the initial grant date. See 2007 Potential Payments upon Termination or Change in Control Separation Agreements.

(4) Mr. Harrison resigned from BIOLASE effective January 2, 2008 at which time vesting of any unvested options ceased. His vested options as of that date, which totaled 254,999 shares expire on April 2, 2008 (three months following termination) as provided for by the terms of each of Mr. Harrison s option agreements and the option expiration dates included in the table have been adjusted to reflect this.

(5) Mr. Bateman s employment with BIOLASE terminated on November 5, 2007. The option expiration dates included in the table reflect the required expiration of each option upon employee termination pursuant to the terms of each of Mr. Bateman s option grants. Specifically, options granted subsequent to December 31, 2000 expire three months from the date of termination while all other options expire the earlier of two years from the date of termination or ten years from the initial grant date. See 2007 Potential Payments upon Termination or Change in Control Separation Agreements.

Option Exercises and Stock Vested

The following table summarizes the option exercises by each of our named executive officers for the year ended December 31, 2007. No shares of restricted stock have been granted to any of the named executive officers.

	Option Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)(1)**
Federico Pignatelli President and Former Interim Chief Executive Officer	130,000(2)	$ 84,700(2)
Jeffrey W. Jones Former President and Chief Executive Officer	3,000	4,170
Richard L. Harrison Former Executive Vice President, Chief Financial Officer and Secretary	0	0
Keith G. Bateman Former Executive Vice President, Global Sales and Marketing	2,300	3,074

(1) Represents the excess over the exercise price of the closing market price of a share of our common stock on the date of exercise multiplied by the number of shares that were exercised.

(2) Consists of 20,000 options exercised in April 2007 for a realized value of $66,450 while Mr. Pignatelli served as a director and 110,000 options exercised in December 2007 for a realized value of $18,250 while Mr. Pignatelli

served as a director and our interim Chief Executive Officer.

Potential Payments upon Termination or Change in Control

Richard L. Harrison.

On December 12, 2005, we entered into an employment agreement with Mr. Harrison. Under the terms of Mr. Harrison s employment agreement, if his employment was terminated other than for cause or if he resigned for good reason, Mr. Harrison would be entitled to receive, subject to his execution of a general release, salary continuation payments at the monthly rate of his base salary for a period of six months; provided, that if he was deemed to be a specified employee within the meaning of Section 409A of the Internal Revenue Code, such payments would be made in a lump sum on the sixth month anniversary

following the date of separation of service. Mr. Harrison s resignation on January 2, 2008 did not entitle him to benefits under this agreement.

In February 2006, we entered into an amendment to Mr. Harrison s employment agreement. The primary purpose of the amendment was to provide for certain severance payments to be made to Mr. Harrison upon the occurrence of certain qualifying terminations of employment within the 18 months following a change of control. A qualifying termination is defined as the occurrence of any termination of the officer s employment:

by the officer for good reason (as defined in the officer s agreement); or

by us without cause (as defined in the officer s agreement),

in each case during the 18 months following the change of control.

Upon the occurrence of a triggering event, Mr. Harrison would have been entitled to receive, subject to his execution of a general release in favor of us, the following:

100% of Mr. Harrison s then current annual salary plus the full amount of his maximum bonus for the current year, which aggregate amount shall be paid in a one-time lump sum payment;

COBRA premiums and reimbursement of expenses associated with medical and dental treatment up to a cap and, to the extent permissible, coverage under our life insurance, accidental death and dismemberment plan and disability program, in each case, for a period of one year from the date of such termination; and

a lump sum payment equal to twelve times the monthly car allowance or monthly lease payment plus its maintenance and insurance costs over a one-year period, as applicable.

In addition, all unvested options and shares of restricted stock held by Mr. Harrison shall immediately vest and become fully exercisable upon such qualifying termination.

Mr. Harrison would not be entitled to tax gross up payments upon the occurrence of a triggering event.

A Change of Control generally means the occurrence of any of the following events: (i) an acquisition by any person of 50% or more of the voting power of our securities; or (ii) approval by our stockholders of: (x) a merger, consolidation, share exchange or reorganization, unless our stockholders, immediately before such transaction own, directly or indirectly immediately following such transaction, at least 50% of the voting power of the outstanding securities of the corporation that is the successor in such transaction in substantially the same proportion as their ownership of the voting securities immediately before such merger, consolidation, share exchange or reorganization; (y) our complete liquidation or dissolution; or (z) an agreement for the sale or other disposition of all or substantially all of our assets.

Good reason generally means the occurrence of: (i) a change in executive s position that materially reduces his duties or level of responsibility; or (ii) a requirement that executive relocate his place of employment to outside of Orange County, California.

In accordance with the requirements of the rules of the SEC, the following table presents our reasonable estimate of the benefits payable to Mr. Harrison, under his employment agreement, as amended, assuming: (a) an involuntary termination without cause or a resignation for good reason occurred on December 31, 2007, the last business day of the 2007 fiscal year; and (b) a change in control and involuntary termination of employment other than for cause or a

resignation for good reason occurred on December 31, 2007, the last business day of the 2007 fiscal year.
Messrs. Jones and Bateman are excluded from the following table as their employment with the Company terminated effective November 5, 2007. Also excluded are benefits provided

to all employees. As discussed under Our Executive Officers , Mr. Harrison subsequently resigned from the Company effective January 2, 2008.

	Termination Without Cause or Resignation for Good Reason	Termination Without Cause or Resignation for Good Reason Within 18 Months of a Change in Control					
			Accelerated Equity				
Name	**Total(1)(3)**	**Salary**	**Awards**	**Bonus**	**Car Allowance**	**Benefits**	**Total(2)(3)**
Richard L. Harrison	$ 123,000	$ 246,000	$ 0	$ 180,000	$ 12,000	$ 20,580	$ 458,580

(1) Represents six months of Mr. Harrison s then current annual salary.

(2) Represents the sum of (a) 100% of Mr. Harrison s then current annual salary ($246,000), (b) the value of the acceleration of Mr. Harrison s unvested stock options based on the spread between the closing price of our common stock ($2.36) on December 31, 2007 and the stock options exercise prices (the exercise price of each of Mr. Harrison s unvested options as of December 31, 2007 is more than the closing price of our common stock as of that date), (c) Mr. Harrison s maximum bonus for the 2007 fiscal year as determined in June 2007 by our Board s Compensation Committee ($180,000), (d) twelve times Mr. Harrison s 2007 monthly car allowance of $1,000, and (e) COBRA premiums, based on current rates for medical, dental and vision insurance, and reimbursement for any out-of-pocket costs, fees, charges or expenses associated with Mr. Harrison s (and his dependents) receipt of medical and dental treatment, up to a cap of $3,000, and, to the extent permissible, coverage under our life insurance, accidental death and dismemberment plan and disability program, in each case, for a period of one year from the date of such termination.

(3) Excludes the value to Mr. Harrison s continued right to indemnification by us. Executives are indemnified by us and entitled to continued coverage under our directors and officers liability insurance policy (if applicable).

Jake St. Philip. On January 2, 2008, we hired Mr. St. Philip as our Chief Executive Officer. Under the terms of his employment agreement, if Mr. St. Philip s employment is terminated other than for cause or if he resigns for good reason, Mr. St. Philip will be entitled to receive severance benefits equal to:

- one year of annual base salary;
- the full amount of his annual performance bonus target for the calendar year in which the effective date of termination occurs;
- twelve months of paid COBRA premiums under our medical and dental benefit plans;
- a $3,000 lump sum cash payment; and
- payment of his premiums under our group life insurance, accidental death and dismemberment and disability benefit plans during the twelve month period following the effective date of termination.

Furthermore, if his employment is terminated without cause or he resigns for good reason and such termination occurs within twelve months of a change in control of us, Mr. St. Philip will be entitled to receive the severance benefits summarized above and Mr. St. Philip s stock option granted upon his hiring shall become fully vested and exercisable on the first business day that is at least 60 days after the effective date of termination.

We have not quantified our reasonable estimate of the amounts payable to Mr. St. Philip under his employment agreement, assuming a termination as of December 31, 2007, in the above table because his employment with us was not effective until after January 2, 2008.

Good reason , for the purposes of Mr. St. Philip s employment agreement, generally means the occurrence of: (i) a change in Mr. St. Philip s position that materially reduces his salary, duties or level of responsibility; (ii) a requirement that Mr. St. Philip relocate his place of employment to more than 50 miles outside of his regular office location in Orange County, California; or (iii) a material breach of the employment agreement by the Company.

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A Change of Control for the purposes of Mr. St. Philip s employment agreement has the same meaning as the use of the term in Mr. Harrison s employment agreement.

Federico Pignatelli. Mr. Pignatelli was not a party to any severance or change in control agreement during 2007 or currently.

Actual Terminations During the Fiscal Year Ended December 31, 2007.

Mr. Jones. On January 30, 2008, we entered into a Separation and General Release Agreement with Mr. Jones relating to the termination of his employment on November 5, 2007. The agreement superseded the Employment Agreement we had with Mr. Jones dated December 29, 2005. Pursuant to the terms of the agreement, we agreed to pay Mr. Jones a severance amount of $374,822 and pay COBRA premiums on his behalf of $1,712 per month for the period from December 2007 through February 2008. The severance amount was paid on February 2, 2008. Mr. Jones also agreed to the partial cancellation of a fully vested option to purchase 100,000 shares of our common stock with an exercise price of $14.10 that were part of a prior option to purchase 200,000 shares of common stock granted on December 12, 2005 and that would have otherwise expired on November 5, 2009. Mr. Jones further agreed to return the car we had leased on his behalf and to resign from our Board. Under the terms of Mr. Jones December 2005 Employment Agreement, Mr. Jones would have been entitled to $360,000, his annual salary at the time of his termination.

In addition, pursuant to the Separation and General Release Agreement, we entered into a mutual general release of all claims and Mr. Jones acknowledged his continuing obligations under the proprietary information and confidentiality provision and the non-solicitation provision of his employment agreement.

Mr. Bateman. On January 22, 2008, we entered into a Separation and General Release Agreement with Mr. Bateman relating to the termination of his employment on November 5, 2007. Pursuant to the terms of the agreement, we agreed to pay Mr. Bateman a severance amount of $187,263 and pay COBRA premiums on his behalf of $1,311 per month for the period from December 2007 through May 2008. The severance amount was subsequently paid on January 31, 2008. Our previous employment agreement with Mr. Bateman did not provide for the payment of any severance payments to him or require the execution of a release upon his termination from service.

In addition, pursuant to the agreement, we entered into a mutual general release of all claims and Mr. Bateman acknowledged his continuing obligations under the proprietary information and confidentiality provision and the non-solicitation provision of his employment.

Equity Compensation Plan Information

Our 2002 Stock Incentive Plan is designed to attract and retain the services of individuals essential to its long-term growth and success. We also formerly maintained the 1990 Stock Option Plan and the 1993 Stock Option Plan. The 1990 Stock Option Plan and the 1993 Stock Option Plan have terminated pursuant to their terms; however, various option grants under those plans remain outstanding.

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The following table summarizes information as of December 31, 2007 with respect to the shares of our common stock that may be issued upon exercise of options, warrants or rights under our existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Stockholders	4,407,974	$ 6.30	596,132
Equity Compensation Plans Not Approved by Stockholders(1)(2)	3,000	2.69	0
Total	4,410,974	$ 6.30	596,132

(1) Consists solely of options under the 1990 Stock Option Plan.

The 1990 Stock Option Plan was implemented by our Board on December 15, 1990. The 1990 Stock Option Plan is a non-stockholder-approved plan under which options were authorized to be granted to directors, officers or employees. Our Board authorized 150,000 shares of our common stock for issuance under the 1990 Stock Option Plan. Options under this plan were granted with an exercise price per share equal to the fair market value per share of our common stock on the grant date and vested in installments during the optionee s period of service with us. The plan administrator (either our Board or a Board committee) may cause options to vest on an accelerated basis in the event we are acquired and those options are not assumed or replaced by the acquiring entity. Each option has a maximum term (not to exceed 10 years) set by the plan administrator at the time of grant, subject to earlier termination following the optionee s termination.

(2) This table does not include options to purchase 450,000 shares of our common stock granted to Jake St. Philip on January 7, 2008 in connection with the appointment of Mr. St. Philip as our Chief Executive Officer. These options, which are not part of a plan approved by stockholders, were granted at $2.89 per share, the fair market value of our common stock as of the close of business on January 7, 2008, and vest over twelve equal quarterly installments, beginning March 31, 2008.

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COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management, and based on its review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in our 2007 Annual Report on Form 10-K and in this Proxy Statement for the 2008 Annual Meeting of Stockholders.

Submitted by the Compensation Committee of our Board:

James R. Largent, Chairman
Neil J. Laird
Robert M. Anderton
George V. d Arbeloff
Daniel S. Durrie

April 9, 2008

AUDIT COMMITTEE REPORT

The Audit Committee oversees our independent registered public accounting firm and assists our Board in fulfilling its oversight responsibilities on matters relating to the integrity of our financial statements, our compliance with legal and regulatory requirements and the independent registered public accounting firm s qualifications and independence by meeting regularly with the independent registered public accounting firm and financial management personnel. Management is responsible for the preparation, presentation and integrity of our financial statements; establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(f)); evaluating the effectiveness of disclosure controls and procedures; and evaluating any change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed our financial statements as of and for the fiscal year ended December 31, 2007, with management and BDO Seidman, LLP, our independent registered public accounting firm. The Audit Committee also discussed with BDO Seidman, LLP the matters required to be discussed by Statement on Auditing Standards No. 61, Communications with Audit Committees, as amended. This included a discussion of the independent registered public accounting firm s judgments as to the quality, not just the acceptability, of our accounting principles and such other matters that generally accepted auditing standards require to be discussed with the Audit Committee. The Audit Committee also received the written disclosures and the letter from BDO Seidman, LLP required by Independence Standards Board Standard No. 1, Independence Discussion with Audit Committees, as amended, and the Audit Committee discussed the independence of BDO Seidman, LLP with that firm.

Based on the Audit Committee s review and discussions noted above, the Audit Committee recommended to our Board, and our Board approved, that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 for filing with the SEC. The Audit Committee also approved the selection of BDO Seidman, LLP as our independent registered public accounting firm for 2007.

The Audit Committee and our Board have also recommended, subject to stockholder ratification, the selection of BDO Seidman, LLP as our independent registered public accounting firm for the 2008 fiscal year.

Submitted by the Audit Committee of our Board:

Neil J. Laird, Chairman
George V. d Arbeloff,
Robert M. Anderton

Date: April 9, 2008

Incorporation by Reference

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, which might incorporate our future filings under those statutes, neither the preceding Compensation Committee Report nor the Audit Committee Report will be incorporated by reference into any of those prior filings, nor will any such report be incorporated by reference into any of our future filings under those statutes. In addition, information on our website, other than our Proxy Statement and form of Proxy, is not part of the proxy soliciting material and is not incorporated herein by reference.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The charter of the Audit Committee requires that it review any insider and related party transactions. In connection with this requirement, all related party transactions (transactions involving our directors, executive officers or any member of their immediate family, or holder of more than five percent (5%) of our outstanding common stock) are disclosed and reviewed by our Audit Committee and our Board of Directors at least

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annually. In addition, transactions involving our directors are disclosed and reviewed by the Nominating and Corporate Governance Committee in its assessment of our directors independence requirements. To the extent such transactions are ongoing business relationships, the transactions are disclosed and, as applicable, reviewed annually.

There has not been any transaction or series of related transactions to which we were a participant in the 2007 fiscal year or are currently a participant involving an amount in excess of $120,000 and in which any director, executive officer or any member of their immediate family, or holder of more than five percent (5%) of our outstanding common stock, had or will have a direct or indirect material interest.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of shares of our common stock as of March 28, 2008 by (i) any stockholder known to us to beneficially own five percent (5%) or more of our outstanding common stock, (ii) each director and nominee for director, (iii) each named executive officer and (iv) all current directors and executive officers as a group. Options shown in the table were granted pursuant to the 2002 Stock Option Plan and 1993 Stock Option Plan and represent the shares issuable pursuant to outstanding options exercisable within sixty (60) days of March 28, 2008. Except as indicated in the footnotes to this table, the persons or entities named in the table have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them, subject to community property laws, where applicable. Percentage ownership is calculated pursuant to SEC Rule 13d-3(d)(1) and is based on 24,142,201 shares of our common stock outstanding at March 28, 2008, and excludes shares reserved for 81,037 unexercised warrants.

5% Beneficial Owners	Shares Beneficially Owned	Number of Shares Underlying Options Exercisable Within 60 Days of March 28, 2008	Percentage of Shares Beneficially Owned
FMR LLC and related entities(1) 82 Devonshire Street Boston, MA 02109	2,365,549	0	9.8%
Directors and Named Executive Officers			
Robert M. Anderton	1,000	105,000	*
Keith G. Bateman(2)	4,050	104,500	*
George V. d Arbeloff	56,517	265,000	1.3%
Daniel S. Durrie	22,500	47,500	*
Richard L. Harrison(3)	0	254,999	1.0%
Jeffrey W. Jones(2)	27,200	808,700	3.4%
Neil J. Laird	5,000	47,500	*
James R. Largent	0	21,562	*
Federico Pignatelli	830,250	227,500	4.3%
All current directors and executive officers as a group (8 persons)	915,267	776,561	6.8%

* Represents less than 1%.

(1) This information is based upon a Schedule 13G/A dated February 14, 2008 and filed with the SEC jointly by FMR LLC (FMR), Edward C. Johnson 3d, Chairman of FMR, Fidelity Management & Research Company (Fidelity) and Fidelity Small Cap Stock Fund (Fund) (as a group, the Fidelity Parties). FMR is a parent holding company of Fidelity, acting as an investment adviser to various investment companies, including the Fund, and is the beneficial owner of the shares. Edward C. Johnson 3d and FMR, through its control of Fidelity and the Fund, each has sole power to dispose of the shares, while neither FMR nor Mr. Johnson has voting power over the shares owned directly by the Funds, as that power resides

with the various Funds Boards of Trustees. Members of the Edward C. Johnson 3d family, directly or through trusts, are predominant owners of voting shares of FMR representing approximately 49% of the voting power of FMR. The Johnson family group and all other voting shareholders of FMR have entered into a shareholders voting agreement under which all shares of the voting stock will be voted in accordance with the majority vote. Accordingly members of the Johnson family may be deemed under the Investment Act of 1940, to form a controller group with respect to FMR.

(2) Shares beneficially owned by Messrs. Bateman and Jones are as of November 5, 2007, the date of their respective terminations from the Company.

(3) Shares beneficially owned by Mr. Harrison are as of January 2, 2008, the date of his resignation from the Company. Shares underlying Mr. Harrison s options are as of March 28, 2008. All such options had an expiration date of April 2, 2008.

Section 16(a) Beneficial Ownership Reporting Compliance

The members of our Board, the executive officers and beneficial holders of more than ten percent of the outstanding shares of our common stock are subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 which requires them to file reports with respect to their ownership of our securities. Based upon the copies of Section 16(a) reports which we received from such persons for their 2007 fiscal year transactions in our common stock and their common stock holdings, we believe that all reporting requirements under Section 16(a) for such fiscal year were met in a timely manner by our directors, executive officers and greater than ten percent beneficial owners.

Annual Report

A copy of the 2007 Annual Report on Form 10-K, which includes the financial statements, but excludes Form 10-K exhibits, is being mailed concurrently with this proxy statement to all stockholders entitled to notice of and to vote at our annual meeting.

By Order of the Board

Frederick M. Capallo
Interim Secretary

Dated: April 9, 2008

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IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. Proxy BIOLASE TECHNOLOGY, INC. Annual Meeting of Stockholders May 14, 2008 This Proxy is Solicited on Behalf of the Board of Directors of BIOLASE Technology, Inc. The undersigned revokes all previous proxies, acknowledges receipt of the Notice of Annual Meeting of Stockholders to be held on May 14, 2008 and the Proxy Statement, and appoints Jake St. Philip and Frederick M. Capallo, and each of them, the Proxy of the undersigned, with full power of substitution, to vote all shares of Common Stock of BIOLASE Technology, Inc. (the Company) which the undersigned is entitled to vote, either on his or her own behalf or on behalf of any entity or entities, at the 2008 Annual Meeting of Stockholders of the Company to be held at the Company s corporate headquarters located at 4 Cromwell, Irvine, CA, 92618, on May 14, 2008, at 9:00 a.m. local time (the Annual Meeting), and at any adjournment or postponement thereof, with the same force and effect as the undersigned might or could do if personally present thereat. The shares represented by this Proxy shall be voted in the manner set forth on this proxy card. By executing this Proxy, the undersigned hereby grants the named proxy holders discretionary authority to act upon all other matters incident to the conduct of the meeting or as may properly come before the meeting, or any adjournment thereof. The undersigned hereby ratifies and confirms all that the attorneys and proxies, or any of them, or their substitutes, shall lawfully do or cause to be done by virtue hereof, and hereby revokes any and all proxies heretofore given by the undersigned to vote at the meeting. The undersigned acknowledges receipt of the Notice of Annual Meeting and the Proxy Statement accompanying such notice. CONTINUED AND TO BE SIGNED ON REVERSE SIDE