UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 2)

(Mark One)

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

For the quarterly period ended September 30, 2004

OR

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

For the transition period from __________ to __________

Commission File Number 000-19627

BIOLASE TECHNOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**87-0442441**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

981 Calle Amanecer

San Clemente, California 92673

(Address of principal executive offices, including zip code)

(949) 361-1200

(Registrant s telephone number, including area code)

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

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

Number of shares outstanding of the registrant s common stock, $0.001 par value, as of October 29, 2004: 22,736,000.

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BIOLASE TECHNOLOGY, INC.

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-Q/A (this Form 10-Q/A) amends our Quarterly Report on Form 10-Q for the third fiscal quarter ended September 30, 2004, filed with the Securities and Exchange Commission (the SEC) on November 10, 2004 and is being filed to reflect the restatement of our consolidated financial statements for the three and nine months ended September 30, 2004 and 2003, as discussed in Note 3 thereto. Amendment No. 1 was filed to revise the outstanding number of shares on the cover page of the Form 10-Q originally filed on November 9, 2004.

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

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

Under accrual of sales tax, and penalties and interest, and the reflection of subsequent abatement for a portion of the penalties and interest

Sales tax on warranty items

Refunds that were recorded for VAT, understating our VAT payable

Training services and consumables in our multiple element arrangements for which these applicable elements of revenue were overstated

Recognition of revenue on a Waterlase system that was not fully functional at the time of shipment

Write-off of an accounts receivable balance for which revenue was improperly recognized

Accruals for bonuses, commissions, payroll, health and dental insurance and vacation

Understatement of our excess and obsolete reserve for items that had previously been reserved

Recording cost of raw materials

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

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

Part I Item 1 Financial Statements (unaudited)

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

Part I Item 4 Controls and Procedures

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

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

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BIOLASE TECHNOLOGY, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BIOLASE TECHNOLOGY, INC.

CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2004	December 31, 2003
	RESTATED	RESTATED
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,993,000	$ 11,111,000
Short-term investments	32,175,000	
Accounts receivable, less allowance of $65,000 and $64,000 in 2004 and 2003, respectively	6,305,000	5,771,000
Inventory	7,131,000	3,808,000
Deferred tax asset	1,508,000	1,508,000
Prepaid expenses and other current assets	1,064,000	1,260,000
Total current assets	52,176,000	23,458,000
Property, plant and equipment, net	2,169,000	1,973,000
Intangible assets, net	2,469,000	2,587,000
Goodwill	2,926,000	2,926,000
Deferred tax asset	14,051,000	12,651,000
Other assets	223,000	1,041,000
Total assets	$ 74,014,000	$ 44,636,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,432,000	$ 3,796,000
Accrued liabilities	5,288,000	5,551,000
Line of credit		1,792,000
Deferred revenue	1,866,000	1,229,000
Deferred gain on sale of building current portion	63,000	63,000
Debt		888,000
Total current liabilities	11,649,000	13,319,000
Deferred gain on sale of building	32,000	79,000
Total liabilities	11,681,000	13,398,000
Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock, par value $0.001, 1,000,000 shares authorized, no shares issued and outstanding		
	24,000	22,000

Common stock, par value $0.001, 50,000,000 shares authorized; 24,394,000 and 21,559,000 shares issued; 22,869,000 and 21,559,000 outstanding in 2004 and 2003, respectively		
Additional paid-in capital	103,370,000	59,134,000
Treasury stock (cost of 1,525,000 shares repurchased)	(13,435,000)	
Accumulated other comprehensive loss	(199,000)	(147,000)
Accumulated deficit	(27,427,000)	(27,771,000)
Total stockholders equity	62,333,000	31,238,000
Total liabilities and stockholders equity	$ 74,014,000	$ 44,636,000

See accompanying notes to consolidated financial statements.

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BIOLASE TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	RESTATED 2004	**RESTATED 2003**	**RESTATED 2004**	**RESTATED 2003**
Net revenue	$ 12,310,000	$ 13,377,000	$ 41,578,000	$ 32,921,000
Cost of revenue	5,167,000	5,020,000	16,469,000	12,497,000
Gross profit	7,143,000	8,357,000	25,109,000	20,424,000
Other income, net	16,000	19,000	48,000	51,000
Operating expenses:				
Sales and marketing	5,713,000	3,729,000	16,713,000	10,989,000
General and administrative	2,545,000	1,580,000	5,772,000	3,500,000
Engineering and development	1,045,000	629,000	2,523,000	1,662,000
Total operating expenses	9,303,000	5,938,000	25,008,000	16,151,000
(Loss) income from operations	(2,144,000)	2,438,000	149,000	4,324,000
Non-operating income, net	274,000	23,000	423,000	135,000
(Loss) income before income taxes	(1,870,000)	2,461,000	572,000	4,459,000
Benefit (provision) for income taxes	745,000	(25,000)	(228,000)	(38,000)
Net (loss) income	$ (1,125,000)	$ 2,436,000	$ 344,000	$ 4,421,000
Net (loss) income per share:				
Basic	$ (0.05)	$ 0.11	$ 0.01	$ 0.21
Diluted	$ (0.05)	$ 0.10	$ 0.01	$ 0.20
Shares used in the calculation of net (loss) income per share:				
Basic	23,409,000	21,535,000	23,380,000	20,796,000
Diluted	23,409,000	23,432,000	24,475,000	22,656,000

See accompanying notes to consolidated financial statements.

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BIOLASE TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
	RESTATED 2004	**RESTATED 2003**
Cash Flows From Operating Activities:		
Net income	$ 344,000	$ 4,421,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	450,000	286,000
Gain on disposal of assets	(47,000)	(51,000)
Gain on foreign exchange contract		(22,000)
Provision for uncollectible accounts	24,000	248,000
Provision for inventory obsolescence	108,000	216,000
Deferred tax asset	228,000	38,000
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(558,000)	(2,667,000)
Inventory	(3,431,000)	(775,000)
Prepaid expenses and other assets	1,014,000	861,000
Accounts payable and accrued liabilities	420,000	1,266,000
Deferred revenue	590,000	(2,602,000)
Net cash (used in) provided by operating activities	(858,000)	1,219,000
Cash Flows From Investing Activities:		
Purchase of investments	(32,181,000)	
Additions to property, plant and equipment	(492,000)	(286,000)
Business acquisition	(70,000)	(1,825,000)
Net cash used in investing activities	(32,743,000)	(2,111,000)
Cash Flows From Financing Activities:		
Borrowings on line of credit		1,792,000
Payment on line of credit	(1,792,000)	(1,792,000)
Payments on debt	(888,000)	(307,000)
Proceeds from issuance of common stock, net of expenses	41,868,000	
Proceeds from exercise of stock options and warrants	977,000	3,513,000
Payment of dividends	(235,000)	
Repurchase of common stock	(13,435,000)	
Net cash provided by financing activities	26,495,000	3,206,000
Effect of exchange rate changes on cash	(12,000)	(66,000)
Net (decrease) increase in cash and cash equivalents	(7,118,000)	2,248,000
Cash and cash equivalents at beginning of period	11,111,000	3,875,000
Cash and cash equivalents at end of period	$ 3,993,000	$ 6,123,000

SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Cash paid during the period for interest	$ 32,000	$ 40,000
Cash paid during the period for taxes	$ 59,000	$ 2,000
Noncash financing activities:		
Business acquisition, net assets acquired	$	$ 5,846,000

See accompanying notes to consolidated financial statements.

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying interim consolidated financial statements as of September 30, 2004 and for the three and nine months ended September 30, 2004 and 2003 are unaudited and have been restated (Note 3). The accompanying consolidated balance sheet as of December 31, 2003 has also been restated (Note 3). The unaudited consolidated financial statements include the accounts of BIOLASE® Technology, Inc. and its consolidated subsidiaries and have been prepared on a basis consistent with the audited annual consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments and the elimination of all material intercompany transactions and balances, necessary to fairly state the information set forth therein. These unaudited, interim, consolidated financial statements do not include all the footnotes, presentations and disclosures normally required by generally accepted accounting principles in the United States of America (GAAP) for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2004 and notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) on the same date as this Form 10-Q/A has been filed.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

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

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

We adopted EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, on July 1, 2003, which requires us to evaluate whether the separate deliverables in our arrangements can be unbundled. We determined that the sale of our Waterlase® includes separate deliverables consisting of the product, disposables used with the Waterlase, installation and training. We apply the residual value method, which requires us to allocate the total arrangement consideration less the fair value of the undelivered elements to the delivered element. Included in deferred revenue as of September 30, 2004 and December 31, 2003 was $1,322,000 (restated) and $887,000 (restated), respectively, of deferred revenue attributable to the undelivered elements which primarily consist of training and installation.

Extended warranty contracts, which are sold to our non-distributor customers, are recorded as revenue on a straight-line basis over the period of the contracts, which is one year. Included in deferred revenue as of September 30, 2004 and December 31, 2003 is $544,000 and $342,000, respectively, of deferred revenue for our extended warranty contracts.

Although all sales are final, we accept returns of products in certain, limited circumstances and record a provision for sales returns based on historical experience concurrent with the recognition of revenue. The sales returns allowance is recorded as a reduction of accounts receivable, revenue and cost of revenue. As of September 30, 2004 and December 31, 2003, respectively, $234,000 and $327,000 was recorded as a reduction of accounts receivable.

We recognized revenue for royalties under licensing agreements for our patented technology. On a quarterly basis, we estimate and recognize the amount earned based on historical performance and current knowledge about the business operations of the licensees. Our estimates have been historically consistent with amounts recorded. Revenue from royalties was $135,000 and $407,000

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

for the three and nine months ended September 30, 2004, respectively, and $20,000 for the three and nine months ended September 30, 2003.

Provision for Warranty Expense

Products sold directly to end users are under warranty against defects in material and workmanship for a period of one year. Products sold internationally to distributors are covered by a warranty on parts for up to fourteen months with additional coverage on certain components for up to two years. We estimate warranty costs at the time of product shipment based on historical experience. Estimated warranty expenses are recorded as an accrued liability, with a corresponding provision to cost of revenue.

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

	Nine Months Ended September 30,	
	2004	2003
Beginning balance	$ 727,000	$ 625,000
Provision for estimated warranty cost	1,816,000	970,000
Warranty expenditures	(1,644,000)	(853,000)
Ending balance	$ 899,000	$ 742,000

Stock-based compensation

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Restated 2004	Restated 2003	Restated 2004	Restated 2003
Reported net (loss) income	$ (1,125,000)	$ 2,436,000	$ 344,000	$ 4,421,000
Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(530,000)	(583,000)	(1,479,000)	(1,377,000)
Pro-forma net (loss) income	$ (1,655,000)	$ 1,853,000	$ (1,135,000)	$ 3,044,000
Basic net (loss) income per share:				
Reported	$ (0.05)	$ 0.11	$ 0.01	$ 0.21
Pro-forma	$ (0.07)	$ 0.09	$ (0.05)	$ 0.15
Diluted net (loss) income per share:				
Reported	$ (0.05)	$ 0.10	$ 0.01	$ 0.20
Pro-forma	$ (0.07)	$ 0.08	$ (0.05)	$ 0.14

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

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004 Restated	2003	2004 Restated	2003
Expected term (years)	3.50	3.50	3.50	3.50
Volatility	66%	80%	65%	80%
Annual dividend per share (restated for 2004)	$ 0.06	$ 0.00	$ 0.06	$ 0.00
Risk free interest rate	2.89%	2.21%	2.98%	2.10%
Weighted average fair value	$ 4.08	$ 6.41	$ 6.36	$ 6.27

There was no impact to stock-based compensation as a result of the revision of the annual dividend per share.

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

Net (Loss) Income Per Share Basic and Diluted

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

Stock options totaling 3,396,000 and 514,000 for the three and nine months ended September 30, 2004, respectively, and stock options totaling 32,000 and 407,000 for the three and nine months ended September 30, 2003, respectively, were not included in the diluted earnings per share amounts as their effect would have been anti-dilutive.

	Three Months Ended September 30,	Nine Months Ended September 30,

	2004	2003 Restated	2004 Restated	2003 Restated
Weighted average shares outstanding basic	23,409,000	21,535,000	23,380,000	20,796,000
Dilutive effect of stock options and warrants		1,897,000	1,095,000	1,860,000
Weighted average shares outstanding diluted	23,409,000	23,432,000	24,475,000	22,656,000

The dilutive effect of stock options and warrants was decreased by 16,000 for the three months ended September 30, 2003, and 777,000 and 157,000 for the nine months ended September 30, 2004 and 2003, respectively, to reflect a revision in the calculation.

Inventory

We value inventory at the lower of cost or market (determined by the first-in, first-out method). We periodically evaluate the carrying value of inventory and maintain an allowance for obsolescence to adjust the carrying value to the lower of cost or market, based on physical and technical functionality as well as other factors affecting the recoverability of the asset through future sales. The allowance for obsolescence is adjusted based on such evaluation, with a corresponding provision included in cost of revenue. Components of inventory, net of an allowance for excess and obsolete items of $354,000 and $246,000 as of September 30, 2004 and December 31, 2003, respectively, were as follows:

	September 30, 2004 Restated	December 31, 2003 Restated
Materials	$ 3,263,000	$ 1,725,000
Work-in-process	991,000	894,000
Finished goods	2,877,000	1,189,000
Inventory	$ 7,131,000	$ 3,808,000

Property, Plant and Equipment

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

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

Property, plant and equipment consisted of the following:

	September 30, 2004	December 31, 2003
Total cost	$ 3,044,000	$ 2,576,000
Accumulated depreciation	(875,000)	(603,000)
Net property, plant and equipment	$ 2,169,000	$ 1,973,000

Intangible Assets and Goodwill

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

Goodwill and other intangible assets with indefinite lives are no longer subject to amortization but are tested for impairment annually or whenever events or changes in circumstances indicate that the assets might be impaired. We conducted our annual impairment test on June 30, 2004, and no impairment was noted. We will continue to test for impairment annually as of June 30th or when events occur that may trigger an impairment. Intangible assets with finite lives continue to be subject to amortization and any impairment is determined in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. We believe no event has occurred that would trigger an impairment of these intangible assets. We recorded amortization expense for the three and nine months ended September 30, 2004, of $62,000 and $187,000, respectively, and $58,000 and $95,000, respectively, for the same periods of 2003.

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

	As of September 30, 2004	As of December 31, 2003

	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patents (10 years)	$ 1,284,000	$ (248,000)	$ 1,036,000	$ 1,284,000	$ (150,000)	$ 1,134,000
Trademarks (6 years)	69,000	(68,000)	1,000	69,000	(60,000)	9,000
Trade names (Indefinite life)	979,000		979,000	979,000		979,000
Other (4 to 6 years)	593,000	(140,000)	453,000	523,000	(58,000)	465,000
Total	$ 2,925,000	$ (456,000)	$ 2,469,000	$ 2,855,000	$ (268,000)	$ 2,587,000
Goodwill (Indefinite life)	$ 2,926,000	$	$ 2,926,000	$ 2,926,000	$	$ 2,926,000

The following table presents the amortization of the intangible assets over the next five years.

	Remaining of 2004	2005	2006	2007	2008	2009
Patents (10 years)	$ 33,000	$ 130,000	$ 121,000	$ 117,000	$ 117,000	$ 117,000
Trademarks (6 years)	1,000					
Other (4 to 6 years)	27,000	109,000	109,000	109,000	99,000	
Total	$ 61,000	$ 239,000	$ 230,000	$ 226,000	$ 216,000	$ 117,000

Non-operating income, net

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

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Gain on foreign currency transactions	$ 14,000	$ 27,000	$ 46,000	$ 135,000
Gain on forward exchange contract				22,000
Gain on sale of marketable securities	95,000		95,000	
Interest income	177,000	8,000	315,000	21,000
Interest expense	(12,000)	(12,000)	(33,000)	(43,000)
	$ 274,000	$ 23,000	$ 423,000	$ 135,000

New Accounting Pronouncements

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

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The Issue s objective is to provide guidance for identifying other-than-temporarily impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. The accounting provisions of EITF 03-1 are effective for all reporting periods beginning after June 15, 2004, while the disclosure requirements are effective for annual periods ending after June 15, 2004. In September 2004, the FASB issued a FASB Staff Position (FSP) EITF 03-1-1 that delays the effective date of the measurement and recognition guidance in EITF 03-1 on certain impaired debt securities until after further deliberations by the FASB. The adoption of this pronouncement did not impact our results of operations or financial position.

NOTE 3-RESTATEMENT OF FINANCIAL STATEMENTS

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

Adjustments Impacting Stockholders Equity or Net Income

Revenue

During the fourth quarter of 2003, we did not identify all revenue transactions that contained a training element to be performed after product shipment. This resulted in us recognizing revenue before we had performed the related services and resulted in an overstatement of revenue in the period the product was shipped. When we performed the training in subsequent periods, we originally recorded sales and marketing expense. During the third quarter of 2004, we identified this error and originally recorded a net adjustment of $193,000 to reduce revenue for training that had not yet been performed through June 30, 2004. The adjustments to the three and nine months ended September 30, 2004 reflect the reversal of the adjustment originally recorded during the third quarter of 2004 and the proper deferral of revenue for training not yet performed, and the subsequent recognition of revenue when the training was performed in the appropriate periods. There were no adjustments recorded for the three and nine months ended September 30, 2003.

During the three and nine months ended September 30, 2004 and 2003, we improperly recognized revenue on consumables that had not been shipped in the period the revenue was recognized. As a result, we have reduced revenue and increased deferred revenue and subsequently recognized revenue when the consumables were shipped.

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

Cost of revenue

During the three months ended September 30, 2004 we identified and recorded the under accrual of sales tax on warranty items related to the first and second quarters of 2004. As a result of correcting for this error and recording these amounts in the proper period, we decreased cost of revenue for the three months ended September 30, 2004. For the three months ended September 30, 2003, we increased inventory and reduced cost of revenue to properly state raw materials purchased at actual cost. For the nine months ended September 30, 2004, we reduced inventory and increased cost of revenue for items that had previously been reserved and to properly state inventory at actual cost.

General and administrative expense

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

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

Value-added tax

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

Employee compensation

As a result of various errors in recording payroll expense, health and dental insurance, vacation expense and bonus expense during the three and nine months ended September 20, 2004 and 2003, we overstated net income for the three months ended September 20, 2004 and understated net income for the three months ended September 30, 2003 and the nine months ended September 30, 2004 and 2003. Also during the three months ended September 30, 2004, we had originally recorded an adjustment to correct for the overaccrual of health and dental insurance from prior periods. As a result, the original adjustment has been reversed and the appropriate amount of health and dental insurance has been recorded in the proper periods.

Other

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

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

Foreign Exchange Rate

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

Income Taxes

The provision for income taxes has been revised to reflect the impact of the adjustments listed above. For the three and nine months ended September 30, 2004, the annual effective tax rate was applied to the as restated income before income taxes resulting in a reduced provision for income taxes and an increase in deferred tax assets. For the three and nine months ended September 30, 2003, we recorded a full valuation allowance against our net deferred tax assets due to the uncertainty of their realization, excluding the deferred tax liability that arises as a result of the amortization of goodwill and our indefinite-lived intangible asset that are deductible for tax purposes. As a result, we recorded a provision for income taxes of $25,000 and $38,000 for the three and nine months ended September 30, 2003, respectively. We also increased deferred tax assets for the stock option deduction benefit recorded to additional paid-in-capital for options exercised during the nine months ended September 30, 2004.

The net effect of these errors is to increase revenue by $288,000 and $243,000, to decrease cost of revenue by $22,000 and to increase cost of revenue by $44,000, to increase operating expenses by $153,000 and decrease operating expenses by $97,000, and to increase components of net income for the effects of foreign currency by $5,000 and $22,000, for the three and nine months ended September 30, 2004, respectively. For 2003, the net effect of these adjustments is to decrease revenue by $57,000 and $70,000 to decrease cost of revenue by $4,000 and to increase cost of revenue by $111,000, and to increase operating expenses by $53,000 and $120,000 for the three and nine months ended September 30, 2003, respectively. The provision for income taxes has been revised to reflect the impact of these adjustments.

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net (loss) income, as previously reported	$ (1,233,000)	$ 2,567,000	$ 155,000	$ 4,760,000
Adjustments to revenue:				
Undelivered training element			(104,000)	
Training performed	193,000		333,000	
Consumables	95,000	(57,000)	(41,000)	(70,000)
Product delivered			55,000	
Total revenue related adjustments	288,000	(57,000)	243,000	(70,000)
Adjustments to cost of revenue:				
Employee compensation	(25,000)	(17,000)	(33,000)	(50,000)
Sales tax	47,000		47,000	
Inventory		21,000	(50,000)	21,000
Product delivered			(8,000)	
Other				(82,000)
Total cost of revenue related adjustments	22,000	4,000	(44,000)	(111,000)
Adjustments to sales and marketing expense:				
Employee compensation	(19,000)		9,000	
Other				(27,000)
Total sales and marketing expense related adjustments	(19,000)		9,000	(27,000)
Adjustments to general and administrative expense:				
Sales tax	(59,000)	(31,000)	(111,000)	(85,000)
Penalties and interest on sales tax	(24,000)	(62,000)	(118,000)	(174,000)
Gain on abatement of penalties	62,000	4,000	320,000	4,000
Value-added tax	(34,000)	(21,000)	(58,000)	(32,000)
Employee compensation	(79,000)	57,000	48,000	129,000
Other			7,000	65,000
Total general and administrative expense related adjustments	(134,000)	(53,000)	88,000	(93,000)

Adjustments to income tax provision	(54,000)	(25,000)	(129,000)	(38,000)
Foreign exchange rate adjustments (A)	5,000		22,000	
Restated net (loss) income	$ (1,125,000)	$ 2,436,000	$ 344,000	$ 4,421,000
Net income per share (restated):				
Basic	$ (0.05)	$ 0.11	$ 0.01	$ 0.21
Diluted	$ (0.05)	$ 0.10	$ 0.01	$ 0.20

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

BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Adjustments Not Impacting Stockholders Equity or Net Income

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

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

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

Consolidated Balance Sheet Data

	September 30, 2004				
	As Previously Reported	Adjustments Not Impacting Stockholders Equity	Foreign Exchange Rate Adjustments	Other Adjustments Impacting Stockholders Equity	As Restated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 3,993,000	$	$	$	$ 3,993,000
Short term investments	32,175,000				32,175,000
Accounts receivable	6,305,000				6,305,000
Inventory	7,132,000			(1,000)	7,131,000
Deferred tax asset	1,079,000			429,000	1,508,000
Prepaid expenses and other current assets	1,495,000	(431,000)			1,064,000

Total current assets	52,179,000	(431,000)		428,000	52,176,000
Property, plant and equipment, net	2,169,000				2,169,000
Intangible assets, net	2,469,000				2,469,000
Goodwill	2,926,000				2,926,000
Deferred tax asset, net of current portion	12,583,000			1,468,000	14,051,000
Other assets	223,000				223,000
Total assets	$ 72,549,000	$ (431,000)	$	$ 1,896,000	$ 74,014,000
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable	$ 4,449,000	$		$ (17,000)	$ 4,432,000
Accrued liabilities	5,104,000	(431,000)		615,000	5,288,000
Deferred revenue	1,819,000			47,000	1,866,000
Deferred gain on sale of building current portion	63,000				63,000
Debt					
Total current liabilities	11,435,000	(431,000)		645,000	11,649,000
Deferred gain	32,000				32,000
Long term debt					
Total liabilities	11,467,000	(431,000)		645,000	11,681,000
Stockholders equity:					
Preferred stock					
Common stock	24,000				24,000
Additional paid-in capital	101,796,000			1,574,000	103,370,000
Treasury stock (cost of 1,525,000 shares repurchased)	(13,435,000)				(13,435,000)
Accumulated other comprehensive loss	(177,000)		(22,000)		(199,000)
Accumulated deficit	(27,126,000)		22,000	(323,000)	(27,427,000)
Total stockholders equity	61,082,000			1,251,000	62,333,000
Total liabilities and stockholders equity	$ 72,549,000	$ (431,000)	$	$ 1,896,000	$ 74,014,000

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Consolidated Balance Sheet Data

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

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

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

Consolidated Statement of Operations Data

	Three Months Ended September 30, 2004				
	As Previously Reported	Adjustments Not Impacting Net Income	Foreign Exchange Rate Adjustments	Other Adjustments Impacting Net Income	As Restated
Net revenue	$ 12,038,000	$ (16,000)	$	$ 288,000	$ 12,310,000
Cost of revenue	4,979,000	211,000	(1,000)	(22,000)	5,167,000
Gross profit	7,059,000	(227,000)	1,000	310,000	7,143,000
Other income, net		16,000			16,000
Operating expenses:					
Sales and marketing	5,931,000	(235,000)	(2,000)	19,000	5,713,000
General and administrative	2,387,000	24,000		134,000	2,545,000
Engineering and development	1,045,000				1,045,000
Total operating expenses	9,363,000	(211,000)	(2,000)	153,000	9,303,000
Income from operations	(2,304,000)		3,000	157,000	(2,144,000)
Non-operating (loss) gain, net	272,000		2,000		274,000
Income before income taxes	(2,032,000)		5,000	157,000	(1,870,000)
Income tax benefit	799,000			(54,000)	745,000
Net (loss)	$ (1,233,000)	$	$ 5,000	$ 103,000	$ (1,125,000)
Net loss per share:					
Basic	$ (0.05)	$	$	$	$ (0.05)
Diluted	$ (0.05)	$	$	$	$ (0.05)

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Consolidated Statement of Income Data

	Three Months Ended September 30, 2003			
	As Previously Reported	Adjustments Not Impacting Net Income	Adjustments Impacting Net Income	As Restated
Net revenue	$ 13,453,000	$ (19,000)	$ (57,000)	$ 13,377,000
Cost of revenue	5,024,000		(4,000)	5,020,000
Gross profit	8,429,000	(19,000)	(53,000)	8,357,000
Other income, net		19,000		19,000
Operating expenses:				
Sales and marketing	3,729,000			3,729,000
General and administrative	1,527,000		53,000	1,580,000
Engineering and development	629,000			629,000
Total operating expenses	5,885,000		53,000	5,938,000
Income from operations	2,544,000		(106,000)	2,438,000
Non-operating (loss) gain, net	23,000			23,000
Income before income taxes	2,567,000		(106,000)	2,461,000
Provision for income taxes			(25,000)	(25,000)
Net income	$ 2,567,000	$	$ (131,000)	$ 2,436,000
Net income per share:				
Basic	$ 0.12	$	$ (0.01)	$ 0.11
Diluted	$ 0.11	$	$ (0.01)	$ 0.10

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Consolidated Statement of Income Data

	Nine Months Ended September 30, 2004				
	As Previously Reported	Adjustments Not Impacting Net Income	Foreign Exchange Rate Adjustments	Adjustments Impacting Net Income	As Restated
Net revenue	$ 41,426,000	$ (91,000)	$	$ 243,000	$ 41,578,000
Cost of revenue	15,700,000	732,000	(7,000)	44,000	16,469,000
Gross profit	25,726,000	(823,000)	7,000	199,000	25,109,000
Other income, net		48,000			48,000
Operating expenses:					
Sales and marketing	17,534,000	(799,000)	(13,000)	(9,000)	16,713,000
General and administrative	5,838,000	24,000	(2,000)	(88,000)	5,772,000
Engineering and development	2,523,000				2,523,000
Total operating expenses	25,895,000	(775,000)	(15,000)	(97,000)	25,008,000
Income from operations	(169,000)		22,000	296,000	149,000
Non-operating (loss) gain, net	423,000				423,000
Income before income taxes	254,000		22,000	296,000	572,000
Income tax benefit	(99,000)			(129,000)	(228,000)
Net income	$ 155,000	$	$ 22,000	$ 167,000	$ 344,000
Net income per share:					
Basic	$ 0.01	$	$	$	$ 0.01
Diluted	$ 0.01	$	$	$	$ 0.01

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Consolidated Statement of Income Data

	Nine Months Ended September 30, 2003				
	As Previously Reported	Adjustments Not Impacting Net Income	Foreign Exchange Rate Adjustments	Other Adjustments Impacting Net Income	As Restated
Net revenue	$ 33,042,000	$ (51,000)	$	$ (70,000)	$ 32,921,000
Cost of revenue	12,386,000			111,000	12,497,000
Gross profit	20,656,000	(51,000)		(181,000)	20,424,000
Other income, net		51,000			51,000
Operating expenses:					
Sales and marketing	10,962,000			27,000	10,989,000
General and administrative	3,407,000			93,000	3,500,000
Engineering and development	1,662,000				1,662,000
Total operating expenses	16,031,000			120,000	16,151,000
Income from operations	4,625,000			(301,000)	4,324,000
Non-operating (loss) gain, net	135,000				135,000
Income before income taxes	4,760,000			(301,000)	4,459,000
Provision for income taxes				(38,000)	(38,000)
Net income	$ 4,760,000	$	$	$ (339,000)	$ 4,421,000
Net income per share:					
Basic	$ 0.23	$	$	$ (0.02)	$ 0.21
Diluted	$ 0.21	$	$	$ (0.01)	$ 0.20

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Consolidated Statements of Cash Flows Data

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

	Nine Months Ended September 30,			
	2004	2004	2003	2003
	As Previously Reported	As Restated	As Previously Reported	As Restated
Cash Flows From Operating Activities:				
Net income	$ 155,000	$ 344,000	$ 4,760,000	$ 4,421,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	450,000	450,000	286,000	286,000
Gain on disposal of assets	(47,000)	(47,000)	(51,000)	(51,000)
Gain on foreign exchange contract			(22,000)	(22,000)
Provision for uncollectible accounts	1,000	24,000	(138,000)	248,000
Provision for inventory obsolescence	108,000	108,000	216,000	216,000
Income tax benefit	95,000	228,000		38,000
Changes in assets and liabilities:				
Accounts receivable	(535,000)	(558,000)	(2,281,000)	(2,667,000)
Inventory	(3,488,000)	(3,431,000)	(835,000)	(775,000)
Prepaid expenses and other assets	906,000	1,014,000	689,000	861,000
Accounts payable and accrued liabilities	588,000	420,000	894,000	1,266,000
Deferred revenue	887,000	590,000	(2,671,000)	(2,602,000)
Net cash provided by (used in) operating activities	(880,000)	(858,000)	847,000	1,219,000
Cash Flows From Investing Activities:				
Purchase of investments	(32,181,000)	(32,181,000)		
Additions to property, plant and equipment	(492,000)	(492,000)	(286,000)	(286,000)
Business acquisition	(70,000)	(70,000)	(1,825,000)	(1,825,000)
Net cash used in investing activities	(32,743,000)	(32,743,000)	(2,111,000)	(2,111,000)
Cash Flows From Financing Activities:				
Borrowings on line of credit			1,792,000	1,792,000
Payment on line of credit	(1,792,000)	(1,792,000)	(1,792,000)	(1,792,000)

Payments on insurance notes	(888,000)	(888,000)		(307,000)
Proceeds from issuance of common stock, net of expenses	41,868,000	41,868,000		
Proceeds from exercise of stock options and warrants	977,000	977,000	3,513,000	3,513,000
Payment of dividends	(235,000)	(235,000)		
Repurchase of common stocks	(13,435,000)	(13,435,000)		
Net cash provided by financing activities	26,495,000	26,495,000	3,513,000	3,206,000
Effect of exchange rate changes on cash	10,000	(12,000)	(66,000)	(66,000)
Net (decrease) increase in cash and cash equivalents	(7,118,000)	(7,118,000)	2,183,000	2,248,000
Cash and cash equivalents at beginning of period	11,111,000	11,111,000	3,940,000	3,875,000
Cash and cash equivalents at end of period	$ 3,993,000	$ 3,993,000	$ 6,123,000	$ 6,123,000

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 4 INVESTMENTS IN MARKETABLE SECURITIES

Our investments are comprised of U.S. government notes and bonds and have been categorized as available-for-sale. We have classified our available-for-sale securities as either short-term or long-term based on management s expectations of when the funds will be used. Unrealized (losses) gains on the investments are included in the other comprehensive income (loss) in stockholders equity. As of September 30, 2004, we recorded an unrealized loss of $6,000. The following summarizes our investments as of September 30, 2004:

	Amortized Cost	Unrealized (Loss)/Gain	Fair Value
Short-term			
U.S. Government bond	$ 32,181,000	$ (6,000)	$ 32,175,000
Total investments in marketable securities	$ 32,181,000	$ (6,000)	$ 32,175,000

NOTE 5 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable includes $34,000 and $223,000 of customer deposits at September 30, 2004 and December 31, 2003, respectively.

Components of accrued liabilities were as follows:

	September 30, 2004 Restated	December 31, 2003 Restated
Payroll and benefits	$ 1,909,000	$ 2,090,000
Warranty expense	899,000	727,000
Sales tax	674,000	1,418,000
Amounts due to customers	333,000	205,000
Professional services	980,000	574,000
Other	493,000	537,000
Total accrued liabilities	$ 5,288,000	$ 5,551,000

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

NOTE 6 ACQUISITIONS

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

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The total consideration consisted of the following:

Cash	$ 1,825,000
Stock consideration (307,500 shares at $12.38 per share)	3,806,000
Acquisition costs	215,000
Total	$ 5,846,000

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

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

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

	Nine Months Ended September 30, 2003 Restated
Pro forma:	
Revenue	$ 33,471,000
Net income	$ 4,150,000
Net income per share:	
Basic	$ 0.20
Diluted	$ 0.18

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

NOTE 7 STOCKHOLDERS EQUITY

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

Shares issued as a result of stock option exercises for the three and nine months ended September 30, 2004 totaled 90,000 and 335,000, respectively, which resulted in proceeds of approximately $284,000 and $977,000, respectively.

On July 19, 2004, we announced that our Board of Directors authorized a 1.25 million share repurchase program. Pursuant to the authorization, we may purchase shares from time to time in the open market or through privately negotiated transactions over the next 12 months. On August 9, 2004, we announced that our Board of Directors authorized the repurchase of an additional 750,000 shares of our common stock, increasing the total shares repurchase program to 2.0 million shares of our common stock. These additional shares may be purchased from time to time in the open market or through privately negotiated transactions over the next 12 months. As of September 30, 2004, we repurchased approximately 1.5 million shares at an average price of $8.81 per share.

On July 27, 2004, we announced a dividend policy to pay a regular cash dividend of $0.01 per share every other month payable to the stockholders of record at the time when declared by the Board of Directors. The dividend policy will remain in place for an indefinite period of time. The first dividend totaling $235,000 was declared and paid on August 30, 2004 to stockholders of record on August 16, 2004.

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 8 COMPREHENSIVE INCOME (LOSS)

Components of comprehensive income were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2004 (Restated)	September 30, 2003 (Restated)	September 30, 2004 (Restated)	September 30, 2003 (Restated)
Net income (loss)	$ (1,125,000)	$ 2,436,000	$ 344,000	$ 4,421,000
Other comprehensive (loss) income items:				
Unrealized (loss) gain on marketable securities	52,000		(6,000)	
Foreign currency translation adjustments	56,000	4,000	(46,000)	(73,000)
Comprehensive (loss) income	$ (1,017,000)	$ 2,440,000	$ 292,000	$ 4,348,000

NOTE 9 INCOME TAXES

As of December 31, 2003, the valuation reserves on our deferred tax assets were reduced and we recognized an income tax benefit and established net deferred tax assets of $14.2 million. We have recorded a benefit for income tax of $745,000 and a provision for income tax expense of $228,000 for the three and nine months ended September 30, 2004, respectively, which adjusted our deferred tax assets. Income taxes will not be payable, subject to any alternative minimum tax, until we have utilized our net operating loss carryforwards, which were approximately $32.4 million as of December 31, 2003. For the three and nine months ended September 30, 2003, we recorded a full valuation allowance against our net deferred tax assets due to the uncertainty of their realization, excluding the deferred tax liability that arises as a result of the amortization of goodwill on our indefinite-lived intangible asset that are deductible for tax purposes. As a result, we recorded a provision for income taxes of $25,000 and $38,000 for the three and nine months ended September 30, 2003, respectively.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Leases

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

	Restated
Remainder of 2004	$ 137,000
2005	539,000
2006	121,000
2007	16,000
2008	1,000
Total	$ 814,000

The future minimum rentals have been increased by $197,000 to restate for commitments that had been improperly excluded.

Litigation

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

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

Diodem s lawsuit against us alleges that our Waterlase product infringes upon the four patents that Diodem acquired from Premier Laser. Diodem also alleges that the products sold by OpusDent and Hoya ConBio also infringe upon the patents. Diodem s infringement suit seeks treble damages, a preliminary and permanent injunction from further alleged infringement, attorneys fees and other unspecified damages. If Diodem successfully asserts an infringement claim against us, our operations may be significantly

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BIOLASE TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

impacted, especially to the extent that it affects our right to use the technology incorporated in our Waterlase system, which accounted for approximately 81% of our revenue for the first nine months of 2004 and approximately 83% of our revenue for the year ended December 31, 2003. If Diodem successfully asserts an infringement claim against Hoya ConBio and OpusDent, it could reduce or eliminate royalties we might receive under licenses to those products, which have totaled approximately $627,000 since the acquisition of the American Dental Laser assets in May 2003. The litigation is in the late stages of pre-trial preparation. No trial date has been set. A trial date in 2005 is likely. This combined lawsuit may proceed for an extended period of time. Although the outcome of these actions cannot be determined with any certainty, we believe our technology and products do not infringe any valid patent rights owned by Diodem, and we intend to continue to vigorously defend against Diodem s infringement action and pursue our declaratory relief action against Diodem. No amounts have been recorded in the consolidated financial statements relating to the outcome of this matter.

We and certain of our officers have been recently named as defendants in several putative shareholder class action lawsuits filed in the United States District Court for the Central District of California. The complaints purport to seek unspecified damages on behalf of an alleged class of persons who purchased our common stock between October 29, 2003 and July 16, 2004. The complaints allege that we and our officers violated federal securities laws by failing to disclose material information about the demand for our products and the fact that the Company would not achieve the alleged forecasted growth. The claimed misrepresentations include certain statements in our press releases and the registration statement we filed in connection with our public offering of stock in March 2004. In addition, three stockholders have filed derivative actions in the state court in California seeking recovery on behalf of BIOLASE, alleging, among other things, breach of fiduciary duties by those individual defendants and by the members of the BIOLASE board of directors.

We have not yet formally responded to any of the actions and no discovery has been conducted by any of the parties. However, based on the facts presently known, our management believes we have meritorious defenses to these actions and intend to vigorously defend them. As of September 30, 2004, no amounts have been recorded in the accompanying financial statements for these matters since management believes that it is not probable the Company has incurred a loss contingency.

From time to time, we are involved in other legal proceedings incidental to our business, but at this time we are not party to any such litigation that is material to our business.

Securities and Exchange Commission Inquiry

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

NOTE 11 CONCENTRATIONS

Many of our customers finance their purchases through third-party leasing companies. In these transactions, the leasing company is considered the purchaser. Revenues generated from dentists who financed their purchase through one leasing company were approximately 33% and 32%, respectively, for the three and nine months ended September 30, 2004, and 30% and 32%, respectively, for the same periods of 2003. Other than these transactions, no distributor or customer accounted for more than 10% of consolidated net revenue for the three months ended September 30, 2004 and September 30, 2003.

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

Accounts receivable concentrations have resulted from sales activity to the one leasing company mentioned above. Accounts receivable for the one leasing company totaled $608,000 or 9.6% of accounts receivable at September 30, 2004 and $742,000 or 12.9% of accounts receivable at December 31, 2003. No other single customer accounted for more than 10% of our accounts receivable at September 30, 2004 or December 31, 2003.

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NOTE 12 SEGMENT INFORMATION

We currently operate in a single business segment. Revenue from the sale of Waterlase, our principal product, represented 80% and 81%, respectively, of total revenue for the three and nine months ended September 30, 2004 and 76% and 78%, respectively, for the same periods of 2003. Revenue by geographic location based on the location of customers were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2004 Restated	September 30, 2003 Restated	September 30, 2004 Restated	September 30, 2003 Restated
Domestic	$ 10,243,000	$ 10,365,000	$ 33,425,000	$ 25,622,000
International	2,067,000	3,012,000	8,333,000	7,299,000
	$ 12,310,000	$ 13,377,000	$ 41,578,000	$ 32,921,000

NOTE 13 SUBSEQUENT EVENTS

In November of 2004, we were notified by our bank that we were in default under our covenants for our $10.0 million line of credit as of September 30, 2004 due to our operating loss for the three months ended September 30, 2004. In November of 2004, we obtained a waiver to this covenant as of September 30, 2004. There were no borrowings on the line of credit as of September 30, 2004. In November of 2004, we borrowed $3.5 million under this line of credit.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Cautionary Statement With Respect To Forward-looking Information

You should read the following discussion and analysis in conjunction with our Unaudited Consolidated Financial Statements and related Notes thereto contained elsewhere in this quarterly report on Form 10-Q/A (the Report). The information contained in this Report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Report and in our other reports filed with the Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for the year ended December 31, 2004, and other filings that discuss our business in greater detail. This Report contains forward-looking statements that can often be identified by words such as anticipates, expects, intends, plans, believes, seeks, es may, will, should, would, potential, continue, and variations of these words or similar expressions. In addition, any statements that refer t expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Examples of these forward-looking statements include, but are not limited to, statements concerning our expected sales and operating results, market acceptance of our product, our ability to protect our intellectual property and succeed in our current litigation, our ability to attract and retain key personnel, the potential of our market and our position in it, our manufacturing capacity, estimates concerning asset valuation and loss contingencies and expectations concerning future costs and cash flow, and our ability to successfully finance our business. Our actual results could differ materially from those anticipated in the forward looking statements based on a variety of factors, including, among others: market acceptance of new products, continued acceptance of existing products, the timing of projects due to the variability in size, scope and duration of projects, clinical study results which lead to reductions or cancellations of projects, obtaining regulatory approvals for new products, regulatory delays, the availability of competitive products, risks associated with competition and competitive pricing pressures and economic conditions generally, any of which may cause revenues and income to fall short of anticipated levels, and other factors, including estimates made by management with respect to our critical accounting policies, adverse results in litigation, general economic conditions and regulatory developments not within our control and other risks detailed from time to time in the reports filed by us with the SEC, including our annual report on Form 10-K. These forward-looking statements are based on our current expectations, estimates and projections about our industry, and reflect our beliefs and certain assumptions made by us. These statements speak only as of the date of this Report and are based upon the information available to us at this time. Such information is subject to change, and we will not necessarily inform you of such changes. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are set forth in Risk Factors, below. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Restatement of Financial Statements

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

Critical Accounting Estimates

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

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Overview

We are one of the world s leading dental laser companies. We design, manufacture and market proprietary dental laser systems that are designed to allow dentists, oral surgeons and other specialists to perform a broad range of common dental procedures, including cosmetic applications. We believe our systems provide superior performance for many types of dental procedures, with less pain and faster recovery times than are generally achieved with drills and other dental instruments. We have clearance from the U. S. Food and Drug Administration to market our laser systems in the United States. We also have the approvals necessary to sell our laser systems in Canada, the European Union and other international markets. Since 1998, we have sold more than 3,000 Waterlase systems and approximately 4,100 laser systems in total in over 25 countries.

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

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

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

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

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

Three months and nine months ended September 30, 2004 (restated) compared with three and nine months ended September 30, 2003 (restated)

For the nine months ended September 30, 2004 we saw a continuation of the increase in demand that we have been experiencing although a slowdown in demand occurred in the third quarter of 2004. Net revenue increased for the nine months ended September 30, 2004 by 26.3% compared to the nine months ended September 30, 2003. For the third quarter ended September 30, 2004 we experienced a 8.0% decrease in net revenue compared to the same period of 2003. Our priority continues to be on market penetration, which we believe is crucial given the large size of the potential market (over 500,000 practicing dentists in the developed countries of the world), the low penetration of our laser technology in dentistry, which we believe to be less than 3% of dentists in the United States and other developed countries. Based on the sales results for the first nine months, we now expect sales for 2004 to be in the range of approximately $58.0 million to $61.0 million, compared to $48.9 million in 2003.

Operating income for the nine months ended September 30, 2004 was $0.1 million compared to $4.3 million for the same period of 2003. Operating loss for the three months ended September 30, 2004 was $2.1 million compared to operating income of $2.4 million for the same period of 2003. The decrease in operating income in 2004 related to higher fixed operating expenses in all functional areas of our business as a result of our overall growth during the past twelve months. Additionally, we have experienced higher operating expenses due to increases in marketing promotions and general and administrative expenses related to higher legal and professional fees, insurance costs and stockholder communication expenses associated with our proxy and annual report distribution. Legal fees include costs related to the Diodem patent litigation and the putative shareholder class action lawsuits. The legal costs of these lawsuits have affected and are expected to continue to affect our operating income this year.

Net income for the nine months ended September 30, 2004 was $ 0.3 million with earnings per diluted share of $0.01 compared to net income of $4.4 million with earnings per diluted share of $0.20 for the same period of 2003. Net income included a provision for income tax expense of $228,000 for the nine months ended September 30, 2004 with $38,000 for the same period of 2003. Income taxes will not be payable, subject to alternative minimum tax, until we have utilized our net operating loss carryforwards, which were approximately $32.5 million as of December 31, 2003. Net loss for the three months ended September 30, 2004 was $1.1 million with net loss per diluted share of $0.05 compared to net income of $2.4 million with net earnings per diluted share of $0.11 for the same period of 2003.

The completion of our public offering of 2.5 million shares of common stock in March of 2004 resulted in net proceeds of approximately $41.9 million and strengthened our financial position and liquidity. We intend to use the majority of this capital over the next several years to support the continued growth of the Company. In July 2004, our Board of Directors approved a stock repurchase program which we believe is a use of capital that can enhance stockholder value. Therefore, in July of 2004, we announced a stock repurchase program to acquire up to 1.25 million shares over the next 12 months. Also in August of 2004, the Board of Directors authorized the repurchase of an additional 750,000 shares of our common stock, increasing the total share repurchase program to 2.0 million shares of our common stock. These shares may be purchased from time to time on the open market or through privately negotiated transactions over the next 12 months. As of September 30, 2004 we have repurchased approximately 1.5 million shares at an average price of $8.81 per share. In July of 2004, the Board of Directors established a dividend policy that will remain in effect for an indefinite period of time and pays a regular cash dividend of $0.01 per share every other month when declared by the Board of Directors. The first dividend totalling $235,000 was declared and paid August 30, 2004 to stockholders of record on August 16, 2004 and a second declared dividend totalling $229,000 was paid October 27, 2004 to stockholders of record on October 13, 2004.

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Results of Operations (restated)

The following table sets forth comparative statements of operations data ($000):

	Restated				Percent of Revenue	
	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Increase (Decrease)	Percent Increase (Decrease)	Three Months Ended September 30 2004	Three Months Ended September 30, 2003
Net revenue	$ 12,310	$ 13,377	$ (1,067)	(8.0)%	100.0%	100.0%
Cost of revenue	5,167	5,020	147	2.9	42.0	37.5
Gross profit	7,143	8,357	(1,214)	(14.5)	58.0	62.5
Other income, net	16	19	(3)	(15.8)	0.1	0.1
Operating expenses:						
Sales and marketing	5,713	3,729	1,984	53.2	46.4	27.9
General and administrative	2,545	1,580	965	61.1	20.6	11.8
Engineering and development	1,045	629	416	66.1	8.5	4.7
Total operating expenses	9,303	5,938	3,365	56.7	75.5	44.4
(Loss) income from operations	(2,144)	2,438	(4,582)	(187.9)	(17.4)	18.2
Non-operating income	274	23	251	1,091.3	2.2	0.2
(Loss) income before tax	(1,870)	2,461	(4,331)	(176.0)	(15.2)	18.4
Benefit for income tax	745	(25)	770	(3,080.0)	6.1	(0.2)
Net (loss) income	$ (1,125)	$ 2,436	$ (3,561)	(146.2)	(9.1)	18.2

	Restated				Percent of Revenue	
	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Increase (Decrease)	Percent Increase (Decrease)	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net revenue	$ 41,578	$ 32,921	$ 8,657	26.3%	100.0%	100.0%
Cost of revenue	16,469	12,497	3,972	31.8	39.6	38.0
Gross profit	25,109	20,424	4,685	22.9	60.4	62.0

Other income, net	48	51	(3)	(5.9)	0.1	0.2
Operating expenses:						
Sales and marketing	16,713	10,989	5,724	52.1	40.1	33.4
General and administrative	5,772	3,500	2,272	64.9	13.8	10.7
Engineering and development	2,523	1,662	861	51.8	6.1	5.0
Total operating expenses	25,008	16,151	8,857	54.8	60.0	49.1
Income (loss) from operations	149	4,324	(4,175)	(96.6)	0.4	13.1
Non-operating income	423	135	288	213.3	1.0	0.4
Income before tax	572	4,459	(3,887)	(87.2)	1.4	13.5
Provision for income tax	(228)	(38)	(190)	500.0	(0.6)	(0.1)
Net income	$ 344	$ 4,421	$ (4,077)	(92.2)	0.8	13.4

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Revenue increased for the nine months ended September 30, 2004 by 26.3% compared to the nine months ended September 30, 2003. This increase reflects the continued demand for our products, and our expanded marketing efforts to generate increased market penetration. For the third quarter ended September 30, 2004 we experienced a 8.0% decrease in net sales compared to the same period of 2003. We believe this decrease was attributed in part to two factors. The first factor was the pending introduction in the fourth quarter of our new advanced Waterlase MD that may have caused potential customers to postpone the purchase of a laser system. The second factor was the series of devastating hurricanes that struck the Gulf region of the United States resulting in the cancellation of the New Orleans Dental Conference and other scheduled sales events that are important vehicles for securing new orders. We expect increased net sales in the fourth quarter of 2004 from the third quarter as a result of generally stronger seasonal sales in the fourth quarter.

Revenue generated outside of the United States were approximately 17% and 20% for the three and nine months ended September 30, 2004, respectively, compared to approximately 23% and 22% for the same periods of 2003. We continue to expand our international marketing efforts. During the nine months ended September 30, 2004, we hosted World Clinical Laser Institute symposiums and seminars in the Asia Pacific region, Mexico, Japan and India. We expect international sales to represent similar percentages of total revenue for the fourth quarter of 2004.

Product mix also stayed relatively constant. Revenue from Waterlase units, our principal product, represented 81% or $33.8 million of total revenue for the first nine months of 2004 compared to 78% or $25.8 million in the same period of 2003. We expect that our Waterlase system and our new Waterlase MD will continue to account for approximately 80% of total revenue for the fourth quarter of 2004.

Significant estimates affecting revenues include the reserve for sales returns. The reserve is based on historical experience from 1998 through the present. For the nine months ended September 30, 2004, the reserve decreased slightly from $327,000 at December 31, 2003 to $234,000 at September 30, 2004.

Gross margins decreased to 58.0% for the three months ended September 30, 2004, compared to 62.5% for the same period of 2003. Gross margins were 60.4% for the nine months ended September 30, 2004 and 62.0% for the same period in 2003. The lower gross margins for the three months ended September 30, 2004 were the result of a lower level of revenue in the third quarter of 2004 to absorb our fixed manufacturing costs, together with lower margin revenue related to after-sale services primarily for training costs associated with our multiple element arrangements which are recorded as cost of revenue. Training negatively impacted gross margins for the third quarter and nine months of 2004 by 3% and 3% respectively. Our manufacturing cost structure, except for the cost of materials, is relatively fixed and increased slightly during the third quarter with the addition of a new manufacturing facility brought online in the second quarter of 2004. Significant estimates affecting gross margin include the allowance for inventory obsolescence and accrued warranty expense. During the first nine months of 2004, the allowance for inventory obsolescence increased from $246,000 at December 31, 2003 to $354,000. The provision for warranty expense was $1.8 million in the first nine months of 2004 compared to $970,000 for the first nine months of 2003. Warranty expenses are variable in nature and will fluctuate from time to time due to the number of units under warranty, product reliability and life cycle.

Sales and marketing expense for the three and nine months ended September 30, 2004 was $5.7 million and $16.7 million, respectively, compared to $3.7 million and $11.0 million, respectively, for the same periods of 2003. Sales and marketing expense as a percentage of sales for 2004 was 46.4% in the third quarter and 40.2% for the first nine months of 2004. The increase in sales and marketing expenses compared to the same periods of the prior year reflect our continued marketing efforts to expand consumer awareness to the benefits of our products and to develop new marketing territories, particularly in areas outside of the United States. We expect sales and marketing expense for the fourth quarter of 2004, as a percentage of revenues, to be lower than the third quarter of 2004.

Although we believe we are one of the market leaders in laser dentistry, we must invest not only in traditional marketing but also in education to accomplish the broad adoption of lasers in dentistry that we seek. This is the reason we formed the World Clinical Laser Institute (WCLI) and why we continually seek to form alliances with teaching programs in the U.S. and globally. The WCLI is now the world s largest teaching institute for laser dentistry. In the first quarter of 2004, the WCLI held its largest ever conference with over 650 participants and over the course of 2004, through an additional six multi-day conferences, expects to reach a participation level of 1,700 of existing and potential customers as well as researchers and academicians. Although we charge a tuition to customers to offset the cost of these conferences (included in revenue), the increasing number and size of WCLI conferences represents a substantial cost to us, a portion of which is included in cost of revenue and a portion of which is included in total sales and marketing expense.

In 2003, we began piloting consumer marketing campaigns in California and other selected markets in the U.S. These pilots often involve a sharing of cost on the part of participating customers. Based on the positive feedback we have received, we intend to continue these pilots and may increase these efforts depending on the results achieved.

General and administrative expenses were $2.5 million and $5.8 million for the three and nine months ended September 30, 2004, respectively, compared to $1.6 million and $3.5 million for the same periods of 2003, respectively. In general, we are experiencing a need to increase human resources and organizational infrastructure necessary to support our growth. We expect that we will be able to leverage off of the fixed nature of these costs. In addition, specific increases in general and administrative expenses are primarily related to legal and professional fees, insurance costs, and stockholder communication expenses related to the proxy and annual report. For the three and nine months ended September 30, 2004, legal fees increased by approximately $595,000 and $1.2

million, respectively, compared to the same periods of 2003. The increase in legal fees was primarily related to the Diodem lawsuit and the putative shareholder class action lawsuits. Administrative wages, insurance, consulting fees related to our Section 404 Sarbanes-Oxley internal controls project and investor relations costs increased approximately $286,000 and $1.2 million, respectively, for the three and nine months ended September 30, 2004 compared to the same periods of 2003. We expect costs in these categories for the fourth quarter of 2004 to be slightly higher than the third quarter of 2004. The increase in our general and administrative expenses were offset by the $62,000 and $320,000 gain recorded on the abatement of penalties on sales tax during the three and nine months ended September 30, 2004, respectively.

Engineering and development expenses include engineering personnel salaries, prototype supplies and contract services. Engineering and development expense for the three and nine months ended September 30, 2004 were $1.0 million and $2.5 million, respectively, compared to $629,000 and $1.7 million for the same periods of 2004, respectively. The increases are due to increased levels of activity in product development related to our new Waterlase MD product and general overall growth. We expect our spending in product development for the fourth quarter of 2004 to be similar to costs incurred in the third quarter of 2004 and will average between 5% to 6% of total net sales for 2004.

We experienced a non-operating gain of $274,000 and $423,000, respectively, for the three and nine months ended September 30, 2004 compared to a non-operating gain of $23,000 and $135,000, respectively, for the same periods of 2003, respectively. The increase is primarily due to higher interest income related to the increase in cash, cash equivalents and investments in marketable securities as a result of the $41.9 million in net proceeds received from our public offering in the first quarter of 2004. Included in the non-operating gain were gains on foreign currency transactions of $14,000 and $46,000, respectively, for the three and nine months ended September 30, 2004 compared to $27,000 and $135,000, respectively, for the same periods of 2003. Due to the relatively low volume of transactions denominated in currencies other than the U.S. dollar, we have not engaged in hedging transactions to offset foreign currency fluctuations. Therefore, we are at risk for changes in the value of the dollar relative to the value of the euro, which is the only non-U.S. dollar denominated currency in which we have transacted business. The non-operating gain varies from quarter to quarter due to certain economic conditions such as interest rates and foreign currency exchange rates. Although we do not expect significant changes that may affect the non-operating gain, we do anticipate some variation in the gain during the fourth quarter of 2004, primarily due to lower interest income.

For the year ended December 31, 2003, we recorded an income tax benefit of $11.9 million as a result of reducing the valuation allowance on deferred tax assets which was included in our consolidated statements of income and an income tax benefit for the exercise of stock options of $2.2 million which was recorded to additional paid-in capital. The deferred tax assets consist primarily of net operating loss carryforwards. They had been fully reserved in prior periods due to the uncertainty of whether we would generate sufficient taxable income to realize the benefits of the assets. Based upon the level of our historical taxable income and the projection for future taxable income, we concluded that it was more likely than not that we would realize the benefits of these assets. We recorded a benefit for income tax of $745,00