BIOLASE, INC
Form 10-Q
November 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

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 001-36385

BIOLASE, 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.)

4 Cromwell

Irvine, California 92618

(Address of principal executive offices, including zip code)

(949) 361-1200

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

The number of shares of the issuer's common stock, $0.001 par value per share, outstanding, as of November 1, 2016, was 67,565,951 shares.

BIOLASE, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BIOLASE, INC.

CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except per share data)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$12,650	$11,699
Restricted cash equivalent	251	200
Accounts receivable, less allowance of $1,629 in 2016 and $1,765 in 2015	9,938	8,948
Inventory, net	13,543	12,566
Prepaid expenses and other current assets	895	1,387
Total current assets	37,277	34,800
Property, plant, and equipment, net	3,856	3,727
Intangible assets, net	9	51
Goodwill	2,926	2,926
Other assets	551	747
Total assets	$44,619	$42,251
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$7,875	$5,960
Accrued liabilities	5,454	5,906
Customer deposits	78	85
Deferred revenue, current portion	3,042	3,155
Total current liabilities	16,449	15,106
Deferred income taxes, net	783	738
Deferred revenue, long-term	52	142
Capital lease obligation, long-term	32	159
Warranty accrual, long-term	955	843
Other liabilities, long-term	288	338
Total liabilities	18,559	17,326
Commitments, contingencies, and subsequent event (Notes 8 and 12)		
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 1,000 shares authorized; 88 and 0 shares issued in 2016 and 2015, respectively; no shares outstanding in 2016 and 2015, respectively	—	—
Common stock, par value $0.001 per share; 100,000 shares	68	58

authorized; 67,566 and 58,228 shares issued and outstanding in 2016 and 2015, respectively		
Additional paid-in-capital	200,622	188,622
Accumulated other comprehensive loss	(732)	(801)
Accumulated deficit	(173,898)	(162,954)
Total stockholders' equity	26,060	24,925
Total liabilities and stockholders' equity	$44,619	$42,251

See accompanying notes to unaudited consolidated financial statements.

BIOLASE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (Unaudited)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Products and services revenue	$13,199	$11,200	$37,933	$33,786
License fees and royalty revenue	30	34	116	172
Net revenue	13,229	11,234	38,049	33,958
Cost of revenue	7,624	7,853	23,144	23,666
Gross profit	5,605	3,381	14,905	10,292
Operating expenses:				
Sales and marketing	4,260	4,039	12,552	13,536
General and administrative	2,778	2,860	7,700	9,363
Engineering and development	1,715	1,756	5,501	5,533
Excise tax	—	78	—	231
Legal settlement	—	—	—	(731)
Total operating expenses	8,753	8,733	25,753	27,932
Loss from operations	(3,148)	(5,352)	(10,848)	(17,640)
Gain (loss) on foreign currency transactions	24	32	(30)	(97)
Interest income, net	18	21	51	44
Non-operating income (loss), net	42	53	21	(53)
Loss before income tax provision	(3,106)	(5,299)	(10,827)	(17,693)
Income tax provision	40	44	117	127
Net loss	(3,146)	(5,343)	(10,944)	(17,820)
Other comprehensive income (loss) items:				
Foreign currency translation adjustment	24	10	69	(190)
Comprehensive loss	$(3,122)	$(5,333)	$(10,875)	$(18,010)
Net loss	$(3,146)	$(5,343)	$(10,944)	$(17,820)
Deemed dividend on convertible preferred stock	(1,092)	—	(1,092)	—
Net loss attributable to common shareholders	$(4,238)	$(5,343)	$(12,036)	$(17,820)
Net loss per share attributable to common shareholders:				
Basic	$(0.07)	$(0.09)	$(0.21)	$(0.31)
Diluted	$(0.07)	$(0.09)	$(0.21)	$(0.31)
Shares used in the calculation of net loss per share:				
Basic	58,551	58,204	58,346	58,177
Diluted	58,551	58,204	58,346	58,177

See accompanying notes to unaudited consolidated financial statements.

BIOLASE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash Flows from Operating Activities:		
Net loss	$(10,944)	$(17,820)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	776	589
Loss on disposal of assets, net	—	6
(Recovery) provision for bad debts, net	(72)	207
Provision for sales allowance	—	100
Stock-based compensation	2,468	2,256
Deferred income taxes	45	46
Earned interest income, net	(52)	(44)
Changes in operating assets and liabilities:		
Restricted cash	(51)	(200)
Accounts receivable	(863)	(500)
Inventory	(1,359)	(1,611)
Prepaid expenses and other current assets	688	(277)
Customer deposits	(7)	(7)
Accounts payable and accrued liabilities	2,120	1,640
Deferred revenue	(202)	661
Net cash and cash equivalents used in operating activities	(7,453)	(14,954)
Cash Flows from Investing Activities:		
Purchases of property, plant, and equipment	(1,055)	(1,253)
Proceeds from disposal of property, plant, and equipment	—	25
Net cash and cash equivalents used in investing activities	(1,055)	(1,228)
Cash Flows from Financing Activities:		
Principal payments under capital lease obligation	(143)	(24)
Proceeds from equity offering, net of expenses	9,541	—
Deposit on capital lease	—	(42)
Proceeds from exercise of stock options and warrants	1	44
Net cash and cash equivalents provided by (used in) financing activities	9,399	(22)
Effect of exchange rate changes	60	(162)
Increase (decrease) in cash and cash equivalents	951	(16,366)
Cash and cash equivalents, beginning of period	11,699	31,560
Cash and cash equivalents, end of period	$12,650	$15,194
Supplemental cash flow disclosure - Cash Paid:		
Interest paid	$3	$2
Income taxes paid	$66	$53

Supplemental cash flow disclosure - Non-cash:		
Assets acquired under capital lease	$—	$378
Accrued capital expenditures and tenant improvement allowance	$114	$791

See accompanying notes to unaudited consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1—DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

The Company

BIOLASE, Inc. ("BIOLASE" and, together with its consolidated subsidiaries, the "Company") is a medical device company that develops, manufactures, markets, and sells laser systems in dentistry and medicine and also markets, sells, and distributes dental imaging equipment, including cone beam digital x-rays and CAD/CAM intra-oral scanners, in-office, and chair-side milling machines.

Basis of Presentation

The unaudited consolidated financial statements include the accounts of BIOLASE and its wholly-owned subsidiaries and have been prepared on a basis consistent with the December 31, 2015 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments and the elimination of all material intercompany transactions and balances, necessary to fairly present the information set forth therein. These unaudited, interim, consolidated financial statements do not include all the footnotes, presentations, and disclosures normally required by accounting principles generally accepted in the United States of America ("GAAP") for complete consolidated financial statements. Certain amounts have been reclassified to conform to current period presentations.

The consolidated results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results for the full year. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2015, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission (the "SEC") on March 11, 2016 (the "2015 Form 10-K").

Liquidity and Management's Plans

The Company incurred a loss from operations, a net loss, and used cash in operating activities for the three and nine months ended September 30, 2016. The Company has also suffered recurring losses from operations during the three years ended December 31, 2015. The Company's recurring losses, level of cash used in operations, the potential need for additional capital, and the uncertainties surrounding the Company's ability to raise additional capital, raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

On August 8, 2016, the Company completed a private placement with several institutional and individual investors, and certain of its directors and officers, under which the Company sold an aggregate of 88,494 shares of its Series C Participating Convertible Preferred Stock ("Preferred Stock") and warrants to purchase up to an aggregate of 2,035,398 unregistered shares of its common stock at an exercise price of $2.00 per share. Each share of Preferred Stock convert was, automatically upon receipt of stockholder approval convertible into 100 shares of common stock, reflecting a conversion price equal to $1.13 per share, which is the closing price of the common stock quoted on the NASDAQ Capital Market on July 29, 2016. On September 30, 2016, the Company held a meeting of its shareholders and received requisite stockholder approval with respect to the issuance of 8,849,400 shares of common stock upon automatic conversion of the Preferred Stock and the issuance of common stock related to the exercise of the warrants by certain holders whose warrants were subject to a beneficial ownership limitation. Gross proceeds from the sale were $10.0 million, and net proceeds, after offering expenses of approximately $0.5 million, were approximately $9.5 million. The warrants become exercisable on February 8, 2017, six months after the closing of the private placement, and have a term of five years from the date of issuance. The Company is using the proceeds from the sale for working capital and general corporate purposes. In connection with the registration rights granted to these investors, the Company filed a registration statement on Form S-3 with the SEC, which was declared effective on November 3, 2016.

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As of September 30, 2016, the Company had working capital of approximately $20.8 million. The Company's principal sources of liquidity as of September 30, 2016 consisted of approximately $12.9 million in cash, cash equivalents and restricted cash and $9.9 million of net accounts receivable.

In order for the Company to continue operations beyond the next 12 months and be able to discharge its liabilities and commitments in the normal course of business, the Company must increase sales of its products directly to end-users and through distributors, establish profitable operations through the combination of increased sales and decreased expenses, generate cash from operations or obtain additional funds when needed. The Company intends to improve its financial condition and ultimately improve its financial results by increasing revenues through expansion of its product offerings, continuing to expand and develop its field sales force and distributor relationships both domestically and internationally, forming strategic arrangements within the dental and medical industries, educating dental and medical patients as to the benefits of its advanced medical technologies, and reducing expenses.

Additional capital requirements may depend on many factors, including, among other things, continued losses, the rate at which the Company's business grows, demands for working capital, manufacturing capacity, and any acquisitions that the Company may pursue. From time to time, the Company could be required, or may otherwise attempt, to raise capital, through either equity or debt offerings, or enter into a line of credit facility. The Company cannot provide assurances that it will be able to successfully enter into any such equity or debt financings or line of credit facility in the future or that the required capital would be available on acceptable terms, if at all, or that any such financing activity would not be dilutive to its stockholders.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U. S. GAAP") requires the Company to make estimates and assumptions that affect amounts reported in the consolidated financial statements and the accompanying notes. Significant estimates in these consolidated financial statements include allowances on accounts receivable, inventory, and deferred taxes, as well as estimates for accrued warranty expenses, goodwill and the ability of goodwill to be realized, revenue deferrals, effects of stock-based compensation and warrants, contingent liabilities, and the provision or benefit for income taxes. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ materially from those estimates.

Critical Accounting Policies

Information with respect to the Company's critical accounting policies, which management believes could have the most significant effect on the Company's reported results and require subjective or complex judgments by management is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of the 2015 Form 10-K. Management believes that there have been no significant changes during the three and nine months ended September 30, 2016 in the Company's critical accounting policies from those disclosed in Item 7 of the 2015 Form 10-K.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market (or, if none exists, the most advantageous market) for the specific asset or liability at the measurement date (referred to as the “exit price”). The fair value is based on assumptions that market participants would use, including a consideration of nonperformance risk. Under the accounting guidance for fair value hierarchy there are three levels of measurement inputs. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs reflect input other than quoted prices included in Level 1 that are observable, either directly or through collaboration with observable market data, other than Level 1. Level 3 inputs are unobservable due to little or no corroborating market data.

The Company's financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximate fair value because of the short maturity of these items.

Convertible Preferred Stock and Warrant Transaction

On August 8, 2016, the Company completed a private placement with several institutional and individual investors, and certain of its directors and officers, under which the Company sold an aggregate of 88,494 shares of its Preferred Stock and warrants to purchase up to an aggregate of 2,035,398 unregistered shares of its common stock at an exercise price of $2.00 per share. Each share of Preferred Stock converts automatically upon receipt of stockholder approval and was convertible into 100 shares of common stock, reflecting a conversion price equal to $1.13 per share, which is the closing price of the common stock quoted on the NASDAQ Capital Market on July 29, 2016. On September 30, 2016, the Company held a meeting of its shareholders and received requisite stockholder approval with respect to the issuance of 8,849,400 shares of common stock upon automatic conversion of the Preferred Stock and the issuance of common stock related exercise of the warrants by certain holders whose warrants were subject to a beneficial ownership limitation. In accordance with applicable accounting standards, the $10.0 million gross proceeds from sale were allocated to the convertible preferred stock and warrants in the amount of $8.9 million and $1.1 million, respectively. The allocation was based on the relative fair values of the underlying common stock and warrants as of the commitment date, with the fair value of the warrants determined using a Black Scholes model. This transaction resulted in a beneficial conversion to common stock with a value of $1.1 million which has been reflected as a deemed distribution to preferred shareholders in the three and nine months ended September 30, 2016.

Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates ("ASU's") to the FASB's Accounting Standards Codification ("ASC").

The Company considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined not to be applicable or are expected to have minimal impact on the Company's consolidated financial position and results of operations.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle, and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of the pending adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which it will adopt the standard during the year ending December 31, 2018.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. The standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. ASU 2014-15 applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. The Company will follow this guidance beginning in fiscal 2017.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory ("ASU 2015-11"), as part of its simplification initiative. The standard requires inventory within the scope of ASU 2015-11 to be measured using the lower of cost and net realizable value. The changes apply to all types of inventory, except those measured using the-last-in-first-out method or the retail inventory method. ASU 2015-11 applies to all entities and is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The Company does not expect that the adoption of this standard will have a material effect on its financial statements. The Company will follow this guidance beginning in fiscal 2017.

In November 2015, FASB issued ASU 2015-17, Income Taxes (Topic 740). Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. To simplify the presentation of deferred income taxes, the amendments in this ASU require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this ASU apply to all entities that present a classified statement of financial position. The new standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years with early adoption permitted. The Company will follow the guidance for fiscal year 2017. The Company does not expect that the adoption of this standard will have a material effect on its financial statements.

In February 2016, FASB issued ASU 2015-17, Leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718) ("ASU 2016-09"). The updated standard simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for public business entities for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. Early adoption is permitted. The Company will follow this guidance beginning in fiscal 2017. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) ("ASU 2016-15"). The updated standard addresses eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is assessing the impact of the adoption of ASU 2016-15 on the Company's consolidated financial statements.

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NOTE 3—STOCK-BASED AWARDS AND PER SHARE INFORMATION

Stock-Based Compensation

The Company currently has one stock-based compensation plan, the 2002 Stock Incentive Plan (as amended effective as of May 26, 2004, November 15, 2005, May 16, 2007, May 5, 2011, June 6, 2013, October 30, 2014, April 27, 2015, and May 6, 2016) (the "2002 Plan"), which will expire on May 5, 2019. Persons eligible to receive awards under the 2002 Plan include officers, employees, and directors of the Company, as well as consultants. As of September 30, 2016, a total of 15,550,000 shares have been authorized for issuance under the 2002 Plan, of which 3,557,000 shares of BIOLASE common stock have been issued pursuant to options that were exercised and restricted stock units ("RSUs") that were settled in common stock, 6,230,000 shares of BIOLASE common stock have been reserved for outstanding options and unvested RSUs, and 5,763,000 shares of BIOLASE common stock remain available for future grants.

The Company recognized stock-based compensation cost of $688,000 and $621,000, for the three months ended September 30, 2016 and 2015 respectively, and $2.5 million and $2.3 million, for the nine months ended September 30, 2016 and 2015 respectively, based on the grant-date fair value. The net impact to earnings was $(0.01), and $(0.01) per basic and diluted share for the three months ended September 30, 2016 and 2015, respectively, and $(0.04) and $(0.04) per basic and diluted share for the nine months ended September 30, 2016 and 2015, respectively. At September 30, 2016, the Company had approximately $4.3 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested share-based compensation arrangements. The Company expects that cost to be recognized over a weighted-average period of 2.5 years.

The following table summarizes the income statement classification of compensation expense associated with share-based payments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of revenue	$29	$46	$198	$184
Sales and marketing	89	(42)	410	445
General and administrative	522	594	1,614	1,442
Engineering and development	48	23	246	185
	$688	$621	$2,468	$2,256

The stock option fair values, under the 2002 Plan, were estimated using the Black-Scholes option-pricing model with the following assumptions:

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

	2016	2015	2016	2015
Expected term	5.9 years	6.0 years	5.8 years	5.7 years
Volatility	86.58 %	86.17 %	85.48 %	88.98 %
Annual dividend per share	$—	$ —	$—	$ —
Risk-free interest rate	1.30 %	1.70 %	1.32 %	1.60 %

A summary of option activity under the 2002 Plan for the nine months ended September 30, 2016 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value(1)
Options outstanding, December 31, 2015	4,493,000	$ 2.72	6.59	$ 422
Granted at fair market value	1,978,000	$ 1.39		
Exercised	(1,000)	$ 0.82		
Forfeited, cancelled, or expired	(659,000)	$ 2.92		
Options outstanding at September 30, 2016	5,811,000	$ 2.24	7.48	$ 773,000
Options exercisable at September 30, 2016	3,275,000	$ 2.68	6.22	$ 176,000
Vested options expired during the quarter ended September 30, 2016	94,000	$ 2.69		

(1) The intrinsic value calculation does not include negative values. This can occur when the fair market value on the reporting date is less than the exercise price of the grant.

A summary of unvested stock option activity under the 2002 Plan for the nine months ended September 30, 2016 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested options at December 31, 2015	1,717,000	$ 2.33
Granted	1,978,000	$ 1.39
Vested	(964,000)	$ 2.18
Forfeited or cancelled	(194,000)	$ 2.08
Unvested options at September 30, 2016	2,537,000	$ 1.68

Cash proceeds, along with fair value disclosures related to grants, exercises, and vested options under the 2002 Plan are as follows for the three and nine months ended September 30 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Proceeds from stock options exercised	$1	$—	$1	$44
Tax benefit related to stock options exercised (1)	N/A	N/A	N/A	N/A
Intrinsic value of stock options exercised (2)	$—	$—	$—	$52
Weighted-average fair value of options granted during period	$1.13	$1.22	$0.99	$1.45
Total fair value of shares vested during the period	$317	$482	$1,370	$1,204

(1) Excess tax benefits received related to stock option exercises are presented as financing cash inflows. The Company currently does not receive a tax benefit related to the exercise of stock options due to the Company’s net operating losses.

(2) The intrinsic value of stock options exercised is the amount by which the market price of the stock on the date of exercise exceeded the market price of the stock on the date of grant.

On February 26, 2016 in connection with the Company's new 2016 compensation plan, the Compensation Committee of the Board of Directors (the "Board"), awarded to certain employees and consultants of the Company a total of 295,000 non-qualified stock options to purchase shares of BIOLASE common stock. These awards were issued at \$0.86 per share, the closing market price of the BIOLASE common stock on the grant date, and expire 10 years from the grant date. Vesting periods for options are as follows: (i) 185,000 options, awarded to existing employees, vest ratably over a 48 month period, commencing one month from the grant date, and (ii) 110,000 options, awarded to new 2016 employees, vest 25% on the one-year anniversary of the grant date and the remainder ratably over the 36-month period, commencing 13 months after of the grant date.

On April 18, 2016, in connection with the hiring of the two new Vice Presidents, the Compensation Committee of the Board awarded 325,000 non-qualified stock options to purchase shares of BIOLASE common stock. These awards were issued at \$1.43 per share, the closing market price of BIOLASE common stock on the grant date, and expire 10 years from the grant date. Vesting periods for the options are as follows: (i) one-half of the total grant is subject to time vesting, with 25% vesting as of April 18, 2017 and the remaining 75% vesting ratably monthly over a thirty-six month period commencing on April 18, 2017, and (ii) one-half of the total grant is subject to specific 2016 and 2017 performance criteria, with vesting upon completion of the applicable performance criteria.

On May 6, 2016, non-employee directors of the Company were granted a total of 597,757 non-qualified stock options to purchase shares of BIOLASE common stock. These awards were issued at \$1.41 per share, the closing market price of BIOLASE common stock on the grant date, and expire 10 years from the grant date. The total grant vests in equal installments over a consecutive twelve month period, commencing on June 6, 2016.

On August 29, 2016, in connection with the hiring of a new Senior Director, the Compensation Committee of the Board awarded 60,000 non-qualified stock options to purchase shares of BIOLASE common stock. This award was issued at \$1.65 per share, the closing market price of BIOLASE common stock on the grant date, and expires 10 years from the grant date. Vesting periods for the options are as follows: (i) one-half of the total grant is subject to ratable time vesting over a forty-eight month period commencing on September 29, 2016, and (ii) one-half of the total grant is subject to specific 2017 performance criteria, with vesting upon completion of the applicable performance criteria.

On September 15, 2016, in connection with the hiring of a new Vice President, the Compensation Committee of the Board awarded 250,000 non-qualified stock options to purchase shares of BIOLASE common stock. This award was issued at \$1.78 per share, the closing market price of BIOLASE common stock on the grant date, and expires 10 years from the grant date. Vesting periods for the options are as follows: (i) one-half of the total grant is subject to time vesting with 25% vesting as of September 15, 2017 and the remaining 75% vesting ratably monthly over a thirty-six month period commencing on September 15, 2017, and (ii) one-half of the total grant is subject to specific 2017 and 2018 performance criteria, with vesting upon completion of the applicable performance criteria.

Restricted Stock Units

In accordance with the 2002 Plan, the Company approved restricted stock units ("RSUs") to acquire shares of BIOLASE common stock as approved by the Board. Effective February 26, 2016, the Compensation Committee of the Board issued the following awards:

Under the 2015 compensation plan, 388,500 RSUs were awarded to certain employees and consultants of the Company. These awards were valued at \$0.86 per share, the closing market price of BIOLASE common stock on the grant date, and fully vested on July 1, 2016.

Under the new 2016 compensation plan, 140,000 RSUs were awarded to certain employees and consultants of the Company. These awards were valued at $0.86 per share, the closing market price of BIOLASE common stock on the grant date, and vest 25% on each of the first, second, third, and fourth anniversaries of the grant date.

In connection with the President and Chief Executive Officer's employment agreement, the maximum performance bonus was awarded, consisting of (i) $100,000 paid in cash during the nine months ended September 30, 2016, and (ii) 59,523 RSUs, valued at $0.86 per share, the closing market price of BIOLASE common stock on the grant date. Half of these RSUs vested on March 30, 2016 and half of these RSUs will vest on February 18, 2017.

On March 10, 2016, under the 2015 compensation plan, the Compensation Committee of the Board approved the grant of 70,000 RSUs to the Company's Chief Financial Officer. These awards were valued at $1.23 per share, the closing market price of BIOLASE common stock on the grant date, and fully vested on July 1, 2016.

On May 6, 2016, non-employee directors of the Company were granted a total 248,750 RSUs valued at $1.41 per share, the closing market price of BIOLASE common stock on the grant date. These awards vest on May 6, 2017.

A summary of unvested RSU activity under the 2002 Plan for the nine months ended September 30, 2016 is as follows:

	Shares	Weighted Average Grant Date Fair Value	
Unvested restricted stock units at December 31, 2015	—	$	—
Granted	907,000		