

CORELOGIC, INC.
Form DEF 14A
June 25, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under § 240.14a-12

CORELOGIC, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

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(1) Amount previously paid:

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(3) Filing Party:

(4) Date Filed:

June 25, 2012

Dear Fellow Stockholder,

You are cordially invited to attend our annual meeting of stockholders at 9 a.m., Pacific time, on July 26, 2012, at the executive offices of CoreLogic, Inc., located at 4 First American Way, Santa Ana, California 92707.

With this letter, we are including the notice for the annual meeting, the proxy statement and the proxy card. We are also including a copy of our Annual Report for the fiscal year ended December 31, 2011. A map and directions to our executive offices can be found on the inside back cover of the proxy statement.

We have made arrangements for you to vote your proxy over the Internet or by telephone, as well as by mail with the traditional proxy card. The proxy card contains instructions on these methods of voting.

Your vote is important. Whether or not you plan on attending the annual meeting on July 26, 2012, we hope you will vote as soon as possible.

Thank you very much for your continued interest in CoreLogic, Inc.

D. Van Skilling

Chairman of the Board

Anand K. Nallathambi

President and Chief Executive Officer

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be Held on July 26, 2012

The annual meeting of stockholders of CoreLogic, Inc., a Delaware corporation (the "Company"), will be held at 9 a.m., Pacific time, on July 26, 2012, at the executive offices of CoreLogic, Inc., located at 4 First American Way, Santa Ana, California 92707, for the following purposes:

1. To elect the ten persons named in the accompanying proxy statement to serve on the Company's board of directors until the next annual meeting or until their successors are duly elected and qualified;
 2. To approve the CoreLogic, Inc. 2012 Employee Stock Purchase Plan;
 3. To approve, on an advisory basis, the compensation of the Company's named executive officers;
 4. To ratify the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012; and
 5. To transact such other business as may properly come before the meeting or any postponements or adjournments thereof.
- Only stockholders of record at the close of business on June 19, 2012, are entitled to notice of the annual meeting and an opportunity to vote at the annual meeting.

The proxy statement and CoreLogic's Annual Report for the fiscal year ended December 31, 2011 are available electronically at <https://materials.proxyvote.com/21871D>.

If you have any questions or require any assistance with voting your shares, or if you need additional copies of the proxy materials, please contact:

INNISFREE M&A INCORPORATED

501 Madison Avenue, 20th Floor

New York, New York 10022

Stockholders May Call Toll-Free: (877) 456-3510

Banks & Brokers May Call Collect: (212) 750-5833

We hope you will be able to attend the annual meeting. However, even if you plan to attend the meeting, please submit a proxy as soon as possible, so that your shares can be voted at the meeting in accordance with your instructions. You may submit your proxy (1) over the Internet,

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(2) by telephone, or (3) by mail. You may still vote in person at the annual meeting even if you have previously voted by proxy. For specific instructions, please refer to the questions and answers commencing on page 2 of the proxy statement and the instructions on the proxy card.

Stergios Theologides

Senior Vice President, General Counsel

and Secretary

Santa Ana, California

June 25, 2012

PROXY STATEMENT

Solicitation of Proxies by the Board of Directors

CoreLogic, Inc.'s Notice of Annual Meeting and Proxy Statement,

Annual Report and other proxy materials are available at

<https://materials.proxyvote.com/21871D>

The board of directors (the Board or the Board of Directors) of CoreLogic, Inc., a Delaware corporation (CoreLogic, the Company, we, or soliciting proxies from holders of our shares of common stock for use at the annual meeting of stockholders to be held on July 26, 2012, at 9:00 a.m., Pacific time. The meeting will be held at the executive offices of CoreLogic, Inc., located at 4 First American Way, Santa Ana, California 92707. We have included a map and directions to our executive offices on the inside back cover of the proxy statement for your convenience.

We are mailing this proxy statement and the enclosed proxy card, notice of annual meeting and CoreLogic's Annual Report for the fiscal year ended December 31, 2011 (the 2011 Annual Report) to our stockholders on or about June 26, 2012. In lieu of a proxy card, holders of shares held in street name through a bank, broker or other nominee are receiving a voting instruction form from their bank, broker or other nominee. As used herein, references to proxy or proxy card also refer to the voting instruction form provided to street name holders. The date of this proxy statement is June 25, 2012.

QUESTIONS AND ANSWERS

Why have I been sent these proxy materials?

Our Board has sent you this proxy statement and the accompanying proxy card to ask for your vote, as a stockholder of our Company, on certain matters that will be voted on at the annual meeting of stockholders to be held on July 26, 2012.

What proposals will be voted on at the meeting?

1. The election of the ten persons named in this proxy statement to serve on the Board until the next annual meeting or until their successors are duly elected and qualified;
2. The approval of the CoreLogic, Inc. 2012 Employee Stock Purchase Plan;
3. The approval, on an advisory basis, of the compensation of our named executive officers;
4. The ratification of the selection of PricewaterhouseCoopers LLP (PwC) as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012; and
5. Such other business as may properly come before the meeting or any postponements or adjournments thereof.

At the time this proxy statement was mailed, our management and the Board were not aware of any other matters to be presented at the annual meeting other than those set forth in this proxy statement and in the notice accompanying this proxy statement, nor have we received notice of any matter by the deadline prescribed by Rule 14a-4(c) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Without limiting our ability to apply the advance notice provisions in our Amended and Restated Bylaws (the Bylaws) with respect to the procedures which must be followed for a matter to be properly presented at an annual meeting, if other matters should properly come before the meeting, the proxy holders will vote on such matters in accordance with their best judgment.

Who may attend the annual meeting?

Only stockholders of the Company and their invited guests may attend the annual meeting of stockholders of CoreLogic. If you are a stockholder of record, you must bring proof of identification. If you hold your shares through a broker, bank or other nominee, you will need to provide proof of ownership for example, a copy of a brokerage statement showing your share ownership and proof of identification.

Who is entitled to vote?

Stockholders of record as of the close of business on June 19, 2012, the record date, or those with a valid proxy from a broker, bank or other nominee that held our shares on the record date are entitled to vote on the matters to be considered at the annual meeting.

Who is a stockholder of record?

A stockholder of record is a person or entity whose name appears as an owner of one or more shares of our common stock on the records of our transfer agent as of its close of business on the record date.

How can I vote my shares in person at the annual meeting?

If you hold shares as a stockholder of record, you have the right to vote those shares in person at the annual meeting. If you choose to do so, you can vote using the ballot provided at the meeting or, if you received a printed set of the proxy materials by mail, by submitting at the meeting the proxy card enclosed with the proxy materials you received. Since a beneficial holder is not the stockholder of record, if you are a beneficial holder of

shares, you may not vote those shares in person at the annual meeting unless you obtain a legal proxy from the broker, bank or other nominee that holds your shares, giving you the right to vote the shares at the meeting using the ballot provided at the meeting. Please note that participants in the Company's 401(k) plan may not vote their plan shares in person at the annual meeting.

Even if you plan to attend the annual meeting, we recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the annual meeting.

How many shares are entitled to vote at the meeting?

As of the record date, 105,231,820 shares of our common stock were issued, outstanding and entitled to vote at the annual meeting.

How many votes do I have?

Each share of CoreLogic common stock, excluding treasury shares, is entitled to one vote on each proposal to be voted on at the annual meeting.

How many directors can I vote for?

Ten. The Board currently consists of seven directors. The Board has increased the size of the Board from seven to ten directors, effective upon the election of directors at the annual meeting, and therefore has nominated three additional directors for election. Accordingly, at the annual meeting, stockholders may vote for up to ten nominees for director.

Who are the director nominees?

The ten director nominees are:

J. David Chatham
Douglas C. Curling
John C. Dorman
Paul F. Folino
Anand K. Nallathambi

Thomas C. O'Brien
Jaynie Miller Studenmund
D. Van Skilling
David F. Walker
Mary Lee Widener

What is the voting requirement to approve each of the proposals?

Proposal 1 Election of Directors: Each nominee for director will be elected if he or she receives the majority of votes cast with respect to such director. A majority of votes cast means that the number of votes FOR a director nominee must exceed the number of votes AGAINST that director nominee. In the event that the number of director nominees exceeds the number of directors to be elected (*i.e.*, in a contested election), directors will be elected by a plurality of the shares represented in person or by proxy and entitled to vote on the election of directors. Because the number of director nominees timely nominated for election at the annual meeting does not exceed the number of directors to be elected at the meeting, the election of directors at the annual meeting will not be contested. As a result, each of the directors will be elected by a majority of votes cast at the annual meeting.

Proposal 2 Approval of the CoreLogic, Inc. 2012 Employee Stock Purchase Plan: The CoreLogic, Inc. 2012 Employee Stock Purchase Plan (the 2012 ESPP) will be approved if the affirmative vote of the holders of a majority in voting power of the common stock entitled to vote on the proposal, present in person or represented by proxy, is received. In addition, with respect to approval of the 2012 ESPP, the rules of the New York Stock Exchange (NYSE) require that the total votes cast also represent over fifty percent (50%) of all shares entitled to vote at the annual meeting.

Proposal 3 Approval, on an advisory basis, of the Compensation of CoreLogic's Named Executive Officers: The vote to approve, on an advisory basis, the compensation of CoreLogic's named executive officers requires the affirmative vote of the holders of a majority in voting power of the common stock entitled to vote on the proposal, present in person or represented by proxy.

Proposal 4 Ratification of the Selection of PwC as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012: The selection of PwC as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012 will be ratified if the affirmative vote of the holders of a majority in voting power of the common stock entitled to vote on the proposal, present in person or represented by proxy, is received.

If you are a beneficial owner and do not provide the stockholder of record with voting instructions, your shares may constitute broker non-votes and may not be counted in connection with certain matters (see "What is a broker non-vote and how is it treated?" below).

How do I vote?

You may vote on matters that properly come before the meeting in one of four ways:

You may vote by mail.

You do this by signing and dating the proxy card and mailing it in the enclosed, prepaid and addressed envelope within the required time. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.

You may vote by telephone.

You do this by following the instructions accompanying the proxy card. If you submit your proxy by telephone, your shares will be voted as you instruct. You do not have to separately mail in your proxy card. Some stockholders may not be able to submit their proxy by telephone.

You may vote over the Internet.

You do this by following the instructions accompanying the proxy card. If you submit your proxy over the Internet, your shares will be voted as you instruct. You do not have to separately mail in your proxy card. Some stockholders may not be able to submit their proxy over the Internet.

You may vote in person at the meeting.

You can vote your shares in person at the meeting, unless such shares are held through the Company's 401(k) plan (as described below under "How are my shares in the Company's 401(k) plan voted?"). However, if you hold your shares in street name (in the name of a bank, broker or other nominee), you must request and receive, prior to the meeting, a legal proxy from the record owner of your shares giving you the right to vote your shares at the meeting and you must present the legal proxy at the meeting in order to vote your shares.

How are my shares in the Company's 401(k) plan voted?

For those stockholders who hold shares pursuant to the Company's 401(k) Savings Plan (the "401(k) Plan"), Fidelity Management Trust Company (Fidelity) acts as trustee for shares held in the 401(k) Plan. The governing documents of the 401(k) Plan require Fidelity, as trustee, to vote the shares as directed by the plan participants for whose benefit the shares are held. Fidelity will use an independent third party to tabulate the voting directions of all participants who provide such directions to Fidelity. Neither the tabulator nor Fidelity will provide the individual or aggregate participant voting directions to the Company, unless otherwise required by

law. Shares for which no direction is received by Fidelity from the participants by July 23, 2012 at 5:00 p.m., Eastern time, are voted in the same proportion as are the shares for which directions are received by that time.

What happens if I sign and return my proxy card, but do not mark my votes?

Anand K. Nallathambi, President and Chief Executive Officer, or Stergios Theologides, Senior Vice President, General Counsel and Secretary, will vote your shares in the manner recommended by the Company's Board.

Can I change my vote or revoke my proxy?

You have the power to change or revoke your proxy at any time before the polls close at the meeting. Only your latest-dated proxy counts. You may do this by:

signing and returning another proxy card with a later date;

if you are a stockholder of record, submitting written notice of your revocation to Stergios Theologides, Senior Vice President, General Counsel and Secretary, at our mailing address on the cover page of this proxy statement;

submitting your proxy by telephone or over the Internet; or

voting in person at the meeting, provided that if your shares are held in street name (in the name of a bank, broker or other nominee), you have obtained a legal proxy from your bank, broker or nominee giving you the right to vote your shares at the meeting. Attendance at the meeting will not by itself constitute revocation of a proxy.

What happens if my shares are held in street name by a broker, bank or other nominee?

If you are a beneficial owner of shares and your shares are held in street name, your broker, bank or other nominee may vote your shares at the annual meeting only on routine matters (as defined by the NYSE rules) on which it has discretion to vote. The NYSE currently considers only the proposal to ratify the selection of PwC as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012 to be a routine matter. The following proposals are considered non-routine matters under the NYSE rules:

the election to the Board of the ten nominees named in this proxy statement;

the proposal regarding the 2012 ESPP; and

the proposal regarding the vote to approve, on an advisory basis, the compensation of our named executive officers.

Under NYSE rules, if you hold your shares in street name and you do not submit your proxy to your broker, bank or other nominee, your broker, bank or other nominee:

will have discretion to either (i) vote your shares on the ratification of the selection of PwC as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012 or (ii) leave your shares unvoted; and

will not have discretion to vote your shares on any of the other proposals.

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If your shares are held in street name, your broker, bank or nominee has enclosed a voting instruction card with this proxy statement. We encourage you to vote your shares by following the instructions provided on the voting instruction card in order to ensure that your shares are represented and voted at the meeting.

Who will count the votes?

Wells Fargo Bank, N.A. will serve as inspector of elections and will tabulate the votes cast at the annual meeting and certify the results.

How can I obtain an additional proxy card?

If you lose, misplace or otherwise need to obtain a proxy card, and you are a stockholder of record, please contact our proxy solicitor, Innisfree M&A Incorporated (Innisfree), toll-free at (877) 456-3510. If you are a beneficial owner of shares held indirectly through a broker, bank or other nominees, please contact your account representative at that organization.

What constitutes a quorum?

A quorum refers to the number of shares that must be represented at a meeting in order to lawfully conduct business. Holders of a majority in voting power of all issued and outstanding shares of common stock entitled to vote at the annual meeting, present in person or represented by proxy, will constitute a quorum at the meeting. Without a quorum, no business may be transacted at the annual meeting. Abstentions are counted as present and entitled to vote for purposes of determining the presence or absence of a quorum. If you hold your shares in street name and do not provide voting instructions to your broker, bank or other nominee, your broker, bank or other nominee will only have discretionary authority to vote your shares on any routine matters at the annual meeting. If your shares are voted on such routine matters as directed by your broker, bank or other nominee, your shares will constitute broker non-votes on each of the non-routine matters and will not be counted in determining the number of shares necessary for approval of the non-routine matters, although they will count for purposes of establishing the presence or absence of a quorum.

What is a broker non-vote and how is it treated?

A broker non-vote occurs with respect to a proposal if the proposal is considered non-routine under applicable NYSE rules (as described above) and the broker has not received voting instructions from a beneficial owner and therefore does not have the discretionary authority to vote shares held by the beneficial owner with respect to such proposal. Broker non-votes are treated as present for purposes of establishing the presence or absence of a quorum, but will not be considered shares entitled to vote on the proposal and will not be treated as affirmative or opposing votes. The proposal to ratify the selection of PwC as our independent registered public accounting firm for the fiscal year ending December 31, 2012 is considered routine and therefore may be voted upon by your broker if you do not give instructions to your broker. As described above, the election of directors, the approval of the 2012 ESPP and the advisory vote to approve the compensation of our named executive officers are non-routine matters. Accordingly, if your shares are held in street name and you do not submit voting instructions to your broker, your shares will not be counted in determining the outcome of the election of director nominees, the approval of the 2012 ESPP, or the proposal regarding the advisory vote on executive compensation.

How are abstentions treated?

For the election of directors, you may vote FOR, AGAINST, or ABSTAIN with respect to each director nominee. If you elect to ABSTAIN from the election of directors, the abstention will not have any effect on the election of directors. In determining the voting results for the election of directors, only FOR and AGAINST votes count.

For purposes of the proposals regarding the 2012 ESPP, the vote to approve, on an advisory basis, the compensation of our named executive officers and the ratification of the selection of PwC as our independent registered public accounting firm for the fiscal year ending December 31, 2012, abstentions are treated as present and entitled to vote. Therefore, with respect to determining whether these three proposals are approved, abstentions are treated as votes AGAINST.

What percentage of stock do the directors and executive officers own?

As of the record date, our directors and executive officers owned approximately 1.4% of our shares of common stock in the aggregate. See pages 23 through 25 for more details.

When are stockholder proposals for our next annual meeting due in order to be included in the proxy statement?

We will consider proposals submitted by stockholders pursuant to Rule 14a-8 promulgated under the Exchange Act for inclusion in the proxy statement for the annual meeting of stockholders to be held in 2013 if they are received no later than February 26, 2013. This date assumes that the date of our next annual meeting will not be advanced or delayed by more than 30 calendar days from the one year anniversary of the date of the current annual meeting. See page 76 for more details.

Who is paying the cost of preparing, assembling and mailing the notice of the annual meeting of stockholders, proxy statement and form of proxy, and the solicitation of the proxies?

The Company will pay the costs associated with the preparation, assembly and mailing of the notice of annual meeting of stockholders, proxy statement and form of proxy, as well as the cost of soliciting proxies relating to the annual meeting. We will also pay brokers, banks and other nominees for the reasonable expenses of forwarding solicitation materials to their customers who own shares of our common stock. In addition to this proxy statement, our directors, officers and other regular administrative employees may solicit proxies. None of them will receive any additional compensation for such solicitation. The Board may also solicit stockholders through press releases issued by the Company, advertisements in periodicals and postings on the Company's website at www.corelogic.com. We have also retained Innisfree to assist in the solicitation of proxies and related services, for a fee estimated to be approximately \$20,000 plus an amount to cover expenses. In addition, the Company has agreed to indemnify Innisfree against certain liabilities arising out of or in connection with the engagement.

How will solicitors contact me?

People soliciting proxies may contact you in person, by mail, by telephone, by e-mail or by facsimile.

How do I obtain a separate set of proxy materials if I share an address with other stockholders?

To reduce expenses, in some cases, we are delivering one set of proxy materials to certain stockholders who share an address, unless otherwise requested. A separate proxy card is included in the proxy materials for each of these stockholders. If you reside at an address and wish to receive a separate copy of the proxy materials, including our 2011 Annual Report, you may contact CoreLogic Investor Relations by mail at 4 First American Way, Santa Ana, California 92707, or by telephone at (703) 610-5410. You may also contact CoreLogic Investor Relations if you would like to receive separate proxy materials in the future or if you are receiving multiple copies of our proxy materials and would like to receive only one copy in the future. You may also contact Innisfree M&A Incorporated, the firm assisting the Board in the solicitation of proxies, at:

INNISFREE M&A INCORPORATED

501 Madison Avenue, 20th Floor

New York, New York 10022

Stockholders May Call Toll-Free: (877) 456-3510

Banks & Brokers May Call Collect: (212) 750-5833

Does our Board have any recommendations with respect to the listed proposals?

Our Board recommends you vote **FOR** : (1) the Board's ten nominees for director; (2) the approval of the CoreLogic, Inc. 2012 Employee Stock Purchase Plan; (3) the approval, on an advisory basis, of the compensation

of our named executive officers; and (4) the ratification of the selection of PwC as our independent registered public accounting firm for the fiscal year ending December 31, 2012.

Where can I find the voting results of the Annual Meeting?

We will announce preliminary voting results as soon as possible after the annual meeting. If final voting results are not available to us in time to file a Current Report on Form 8-K with the SEC within four business days after the annual meeting, we intend to file a Current Report on Form 8-K to disclose preliminary voting results and, within four business days after the final results are known, we will file an additional Current Report on Form 8-K with the SEC to disclose the final voting results.

Whom can I contact if I have questions or need assistance in voting my shares, or if I need additional copies of the proxy materials?

Please contact Innisfree M&A Incorporated, the firm assisting the Board in the solicitation of proxies, at:

INNISFREE M&A INCORPORATED

501 Madison Avenue, 20th Floor

New York, New York 10022

Stockholders May Call Toll-Free: (877) 456-3510

Banks & Brokers May Call Collect: (212) 750-5833

PROPOSAL 1. Election of Directors

The Company's Bylaws require that directors be elected annually, and the Company's Amended and Restated Certificate of Incorporation provides that the Board shall consist of such number of directors as is determined from time to time exclusively by resolution adopted by the affirmative vote of a majority of the directors then in office. At present, our Board consists of seven directors. Effective upon the election of directors at the annual meeting, the size of the Board will be increased from seven to ten directors. The Board has nominated the ten individuals below for election at the meeting, to serve until the 2013 annual meeting of stockholders or until the directors' respective successors are elected and qualified.

Voting Standard

The ten nominees will be elected to the Board by a majority of votes cast with respect to such director nominee in uncontested elections, to serve until the next annual meeting or as soon thereafter as their successors are duly elected and qualified. In a contested election, where the number of nominees for director exceeds the number of directors to be elected, directors are elected by a plurality of shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. Under the Company's Corporate Governance Guidelines, if a nominee for director who was in office prior to the election is not elected by a majority of votes cast, the director must promptly tender his or her resignation from the Board, and the Nominating and Corporate Governance Committee of the Board (the "Nominating and Corporate Governance Committee") will make a recommendation to the Board about whether to accept or reject the resignation, or whether to take other action. The Board will act on the recommendation of the Nominating and Corporate Governance Committee within 90 days from the date the election results are certified and thereafter promptly disclose its decision in a Current Report on Form 8-K. If a nominee for director who was not already serving as a director does not receive a majority of votes cast at the annual meeting, the nominee is not elected to the Board.

Unless otherwise specified by you in your proxy card, the proxies solicited by our Board will be voted FOR the election of these nominees. All of the director nominees listed below have consented to being named in this proxy statement and to serve as directors if elected. If any nominee should become unable or unwilling to serve as a director, the proxies will be voted for such substitute nominee(s) as shall be designated by our Board. Our Board currently has no knowledge that any of the nominees will be unable or unwilling to serve.

Nominees

Set forth below is information concerning each person nominated and recommended to be elected by our Board. Seven of the nominees currently serve as directors of the Company and were previously elected to the present term of office by the Company's stockholders or appointed by the Board in accordance with our Bylaws.

See the section entitled Security Ownership of Certain Beneficial Owners and Management, beginning on page 23, for information pertaining to stock ownership of the nominees. There are no family relationships among any of the nominees or any of the executive officers of the Company. The Company originally appointed Mr. Thomas C. O'Brien for election to the Board pursuant to an agreement with Highfields Capital Management LP ("Highfields") dated April 10, 2008, as discussed in the Company's Current Report on Form 8-K dated April 10, 2008. Mr. Skilling was originally appointed to the Company's Board pursuant to an earlier contract that required the Company to recommend one nominee of Experian Information Solutions, Inc. to the nominating committee as a candidate for election to the Board. Our agreement with Experian terminated in December 2009.

Selection of New Candidates for Board Membership

On March 19, 2012, the Company announced that it intended to add new independent members to the Board and that the Nominating and Corporate Governance Committee had engaged Spencer Stuart, a leading international executive search firm, to conduct a comprehensive search and assist in the selection of director

candidates. In connection with the search, the Company sought input from the Company's four largest stockholders and received the names of several potential candidates. Ms. Studenmund and Mr. Dorman were identified as candidates by Spencer Stuart. Mr. Curling was suggested as a candidate by two of our largest stockholders, Highfields and Blue Harbour Group, L.P., and was also known to some of the Company's directors and management.

On May 1, 2012, the Company received notice from Highfields, Highfields GP LLC, Highfields Associates LLC, Jonathon S. Jacobson, Highfields Capital I LP, Highfields Capital II LP and Highfields Capital III, L.P. (collectively, the Highfields Entities) of their intention to formally nominate three individuals for election to the Board of Directors at the annual meeting (which nominees did not include Ms. Studenmund, Mr. Dorman or Mr. Curling).

In late May 2012, the Company informed Highfields that it had substantially completed its search for director candidates and, in connection with the annual meeting, expected to (a) expand the Board from seven to ten members and (b) nominate Ms. Studenmund and Messrs. Dorman and Curling for election as directors at the annual meeting. The Company provided Highfields with the opportunity to interview each of these three candidates and to review their background and experience. On June 6, 2012, the Board nominated Ms. Studenmund and Messrs. Curling and Dorman for election at the annual meeting following the unanimous recommendation of the Nominating and Corporate Governance Committee. Although on June 6 the Board did not yet recommend the three nominees to specific committee assignments, the Board expects that upon election each of the new directors will join one of the Board's three standing committees.

On June 11, 2012, the Company entered into a support agreement (the Support Agreement) with the Highfields Entities to settle the potential proxy contest pertaining to the election of directors at the annual meeting. Pursuant to the Support Agreement, among other things, (i) the Company confirmed that it would nominate Ms. Studenmund and Messrs. Dorman and Curling for election as directors at the annual meeting and (ii) the Highfields Entities agreed to withdraw their nomination of three candidates to the Board and agreed to vote their shares of the Company's common stock in favor of the Company's ten nominees.

The foregoing is not a complete description of the terms of the Support Agreement. For a further description of the terms of the Support Agreement, including a copy of the Support Agreement, please see the Current Report on Form 8-K that the Company filed with the SEC on June 12, 2012.

There are no other arrangements or understandings between any director and any other person pursuant to which any director was or is to be selected as a director.

Biographical Descriptions

Name	Biography	Age
J. David Chatham	Mr. Chatham has served as a member of our Board since 1989. Mr. Chatham has served as the President and Chief Executive Officer of Chatham Holdings Corporation, a firm specializing in real estate development and associated industries, since its incorporation in 1991. From 2003 until its acquisition by the Company in late 2009, Mr. Chatham served on the Board of First Advantage Corporation (FADV), a NASDAQ-listed company and former subsidiary of the Company that was a provider of credit and data services, employer services, multifamily services and investigative and litigation support services. Through his experience as a real estate developer, Mr. Chatham enhances our understanding of the residential real estate market.	62

Douglas C. Curling	<p>Mr. Curling has been recommended by our Board as a nominee for director. Since March 2010, Mr. Curling has been a principal and managing director of New Kent Capital LLC, a family-run investment business, and a principal at New Kent Consulting LLC, a consulting business that he founded. From 1997 until September 2008, Mr. Curling held various executive positions at ChoicePoint Inc., a provider of identification and credential verification services that was sold to Reed Elsevier, including serving as President from April 2002 to September 2008, as Chief Operating Officer from 1999 to September 2008 and as Executive Vice President, Chief Financial Officer and Treasurer from 1997 to May 1999. Mr. Curling also served as a director of ChoicePoint from May 2000 to September 2008. Prior to joining ChoicePoint, Mr. Curling served in various financial roles at Equifax, Inc., a credit bureau, from 1989 to 1997. In addition to his experience operating a data business, Mr. Curling would provide insight on data monetization and growth strategies to our Board.</p>	58
John C. Dorman	<p>Mr. Dorman has been recommended by our Board as a nominee for director. Mr. Dorman has served on the board of directors of Online Resources Corporation, a developer and supplier of electronic payment services, since May 2009, and as Chairman of the board since June 2010. Mr. Dorman previously served as Co-Chairman of Online Resources from January 2010 to June 2010, and as interim Chief Executive Officer from April 2010 to June 2010. From October 1998 to August 2003 he served as Chief Executive Officer of Digital Insight Corporation, a provider of software-as-a-service for online banking and bill payment for financial institutions, and served on the board of directors of Digital Insight until the company was acquired in 2007 by Intuit, Inc. Mr. Dorman served as Senior Vice President of the Global Financial Services Division of Oracle Corporation from August 1997 to October 1998; and Chairman and Chief Executive Officer of Treasury Services Corporation, a provider of modeling and analysis software for financial institutions, from 1983 to 1997. Mr. Dorman also serves on the board of directors for two privately-held corporations – DataDirect Networks, Inc. and DeepDyve, Inc. Mr. Dorman’s prior experience as Chief Executive Officer of a technology service provider during a period of rapid growth and expansion, and his board experience will allow him to provide insights into CoreLogic’s operational, technology and growth strategies.</p>	61
Paul F. Folino	<p>Mr. Folino has served as a member of our Board since July 2011. Mr. Folino was Executive Chairman of the Board of Directors of Emulex Corporation, an information technology product manufacturer specializing in servers, network and storage devices for data centers, from 2006 until his retirement in 2011. Previously, he had served as a director of Emulex since 1993, as Chairman from 2002 to 2006, and as Chief Executive Officer from 1993 to 2002. Mr. Folino also serves on the boards of Microsemi Corporation, a provider of semiconductor solutions, Commercial Bank of California and Lantronix, Inc., a provider of device networking and remote access products for remote IT management, as well as numerous charitable organizations. Mr. Folino brings significant expertise regarding information technology and intellectual property. In addition, as a seasoned CEO, Mr. Folino provides valued input on a variety of leadership, strategy and organizational matters.</p>	67

Anand K. Nallathambi	Mr. Nallathambi is our President and Chief Executive Officer and has served as a member of our Board since June 2010. From November 2009 until the spin-off of our financial services business in June 2010 (the Separation), Mr. Nallathambi served as President and Chief Operating Officer of the information solutions group of our predecessor, The First American Corporation (FAC). From March 2007 to November 2009, Mr. Nallathambi served as chief executive officer of FADV and from 2005 to March 2007 served as its president. From 2007 to 2009, Mr. Nallathambi was also a member of the Board of Directors of FADV. Prior to joining FADV, from 1996 to 1998, Mr. Nallathambi served as president of FAC s credit information group and as president of First American Appraisal Services, a real-estate appraisal company. Mr. Nallathambi has worked with us in various capacities for nearly 15 years and brings unique insight into our management practices and has a deep understanding of our history and culture. Respected for his vision in the consumer data industry and his leadership as former chairman of the Consumer Data Industry Association, Mr. Nallathambi s strategic perspectives on combining property and consumer information have helped drive innovative product development initiatives at the Company.	50
Thomas C. O Brien	Mr. O Brien was originally appointed to our Board in April 2008 pursuant to an agreement with Highfields, as discussed in our Current Report on Form 8-K dated April 10, 2008. Our agreement with Highfields expired in December 2009. Mr. O Brien has served as the Chief Executive Officer and President of Insurance Auto Auctions Inc., a provider of specialized services for automobile insurance, since 2000. Mr. O Brien also serves as a director of KAR Auction Services, Inc. As a result of his experience as a chief executive officer, Mr. O Brien brings to our Company insight into our management practices, in particular with respect to the relationship between compensation and performance.	58
Jaynie Miller Studenmund	Ms. Studenmund has been recommended by our Board as a nominee for director. From January 2001 to January 2004, Ms. Studenmund was Chief Operating Officer of Overture Services, Inc., the creator of paid search advertising, acquired by Yahoo, Inc. in 2004. From February 2000 to January 2001, Ms. Studenmund was President and Chief Operating Officer of PayMyBills.com, a leading online bill management company. Prior to this, Ms. Studenmund held senior positions in the financial services industry, serving as Executive Vice President and Head of Retail Banking at Great Western Bank and then Home Savings Bank (both are now part of JPMorgan Chase) from 1996 to 1998, and as Executive Vice President and Head of Retail Banking and Chief Marketing Officer at First Interstate Bank (now part of Wells Fargo) from 1985 to 1996. Ms. Studenmund has served as a director of Orbitz Worldwide, Inc., an online travel company, since 2007; as a director of Pinnacle Entertainment, Inc., an owner, operator and developer of casinos and related hospitality and entertainment facilities, since March 2012; as director for several public funds as well as other funds for Western Asset, a major fixed income fund, since 2004; and as a director of several private companies, including Forest Lawn Memorial Parks, an industry-leading memorial parks provider, since 2002. She is also a director of Huntington Memorial Hospital, a regional teaching hospital in Pasadena, California. Ms. Studenmund has more than 30 years executive management and operational experience across a diverse group of businesses in	58

financial services and the internet sector. She is also a seasoned director, having guided the growth and development of several technology and internet companies. With her background, Ms. Studenmund will bring to our Board broad operational expertise and strong insights into growth strategies, particularly through technology, software and the internet.

D. Van Skilling	<p>Mr. Skilling has served as a member of our Board since 1998 and as Chairman of the Board since May 2011. Mr. Skilling served as Chairman and Chief Executive Officer of Experian Information Solutions, Inc. (Experian) from 1996 to 1999 and was originally appointed to our Board pursuant to an agreement with Experian which required that we nominate an Experian designee as a candidate for election to our Board. Our agreement with Experian terminated in December 2009. Mr. Skilling has served as the President of Skilling Enterprises, a private investment firm, since 1999. Mr. Skilling also serves as chairman of the board of ONVIA, Inc. and as a director of American Business Bank. Previously, he served as a director of FADV, The Lamson & Sessions Co. and McData Corporation. Mr. Skilling, who was responsible for businesses that Experian contributed to a joint venture with us (which is now wholly owned by us), provides our Company with insight into the development of these businesses as well as strategies for managing them. Mr. Skilling has extensive experience as a director of publicly-traded companies and a strong executive background including extensive executive experience in corporate finance and strategic planning, corporate governance and public company executive compensation.</p>	78
David F. Walker	<p>Mr. Walker has served as a member of our Board since May 2010. Mr. Walker served as the Director of the Program of Accountancy at the University of South Florida in St. Petersburg from 2002 through June 2009. From 1986 to 2002, Mr. Walker was a partner with Arthur Andersen, an accounting firm, having led the firm's assurance and business advisory practice for the Florida Caribbean Region, from 1999 through 2002. Mr. Walker also serves on the boards of CommVault Systems, Inc., a data and information management software company, and Chico's FAS, Inc., a women's specialty retailer. Mr. Walker previously served as a director of Technology Research Corporation, Inc. and FADV. Mr. Walker's extensive experience in public accounting and on corporate boards, including as a past or present chair of other audit committees, contributes to the Board's oversight of the Company's financial reporting and risk management.</p>	58
Mary Lee Widener	<p>Ms. Widener has served as a member of our Board since 2006. Ms. Widener is a community investment consultant. From 1974 until her retirement in 2009, Ms. Widener was President and Chief Executive Officer of Neighborhood Housing Services of America, Inc., a nonprofit housing agency. Ms. Widener also serves on the board of The PMI Group, Inc. Given her extensive experience with organizations dedicated to revitalizing neighborhoods and increasing homeownership opportunities, Ms. Widener brings to our Company an understanding of the opportunities we have to improve homeownership in underserved communities and the difficulties people in those communities face in purchasing a home.</p>	73

PROPOSAL 2. Approval of CoreLogic, Inc. 2012 Employee Stock Purchase Plan

General

At the annual meeting, stockholders will be asked to approve the 2012 ESPP, which was adopted, subject to stockholder approval, by the Board on May 23, 2012. The 2012 ESPP will replace our 2001 Employee Stock Purchase Plan, which expired in August 2011.

Under the 2012 ESPP, shares of the Company's common stock will be available for purchase by eligible employees who participate in the 2012 ESPP. Eligible employees will be entitled to purchase, by means of payroll deductions, limited amounts of the Company's common stock during periodic offering periods under the 2012 ESPP. The 2012 ESPP will not be effective without stockholder approval.

Approval of the 2012 ESPP will permit the Company to continue making an employee stock purchase plan available to eligible employees. The Company believes that the 2012 ESPP will help the Company retain and motivate eligible employees and help further align the interests of eligible employees with those of the Company's stockholders.

Summary Description of the 2012 Employee Stock Purchase Plan

The principal terms of the 2012 ESPP are summarized below. The following summary is qualified in its entirety by the full text of the 2012 ESPP, which appears as Annex 1 to this proxy statement.

Purpose. The purpose of the 2012 ESPP is to provide eligible employees with an opportunity to purchase shares of the Company's common stock at a favorable price through accumulated payroll deductions. The 2012 ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the U.S. Internal Revenue Code of 1986, as amended (the "Code").

Administration. The Compensation Committee of the Board of Directors (the "Committee") will administer the 2012 ESPP. The Committee has full discretionary authority to construe, interpret and apply the terms of the 2012 ESPP, to determine eligibility and to adjudicate any disputed claims filed under the 2012 ESPP.

Operation. The 2012 ESPP is generally expected to operate in consecutive quarterly periods referred to as offering periods. The first offering period is expected to commence on October 1, 2012 and end on the last trading day in the quarter ending December 31, 2012, with successive offering periods expected to begin on the first day of the calendar quarter following the end of the immediately preceding offering period and to terminate on the last trading day of that quarter. The 2012 ESPP gives the Committee the flexibility to change the duration of future offering periods. However, offering periods may not last longer than the maximum offering period permitted under Section 423 of the Code. (Section 423 of the Code generally limits the length of offering periods to either 5 years or 27 months, depending on the terms of the offering.)

On the first day of each offering period or any later date during the offering period when an employee first becomes eligible to participate in the 2012 ESPP (the applicable date is referred to as the "Grant Date"), each eligible employee for that offering period will be granted an option to purchase shares of the Company's common stock. Each participant's option will permit the participant to purchase a number of shares determined by dividing the employee's accumulated payroll deductions for the offering period by the applicable purchase price. A participant must designate in his or her enrollment package the percentage (if any) of compensation to be deducted during that offering period for the purchase of stock under the 2012 ESPP. The participant's payroll deduction election will generally remain in effect for future offering periods unless terminated by the participant. A participant generally may elect to increase or decrease his or her payroll deductions during the offering period, subject to any limitations on the number of changes determined by the Committee. A participant may also elect to withdraw from any offering period prior to the last day of the offering period, in which case the participant's payroll deductions will be refunded and the participant's outstanding options will terminate.

Each participant's payroll deductions under the 2012 ESPP will be credited to a bookkeeping account in his or her name under the 2012 ESPP. Amounts contributed to the 2012 ESPP constitute general corporate assets of the Company and may be used for any corporate purpose.

Each option granted under the 2012 ESPP will automatically be exercised on the last day of the respective offering period (referred to as the Exercise Date). The number of shares acquired by a participant upon exercise of his or her option will be determined by dividing the participant's 2012 ESPP account balance as of the Exercise Date for the offering period by the purchase price of the option. The purchase price for each option is generally expected to equal 85% of the fair market value of a share of the Company's common stock on the Exercise Date for the offering period. However, the 2012 ESPP gives the Committee the flexibility to change the purchase price for future offering periods, as long as the purchase price is not lower than the lesser of (1) 85% of the fair market value of a share of the Company's common stock on the applicable Grant Date, or (2) 85% of the fair market value of a share of the Company's common stock on the applicable Exercise Date. A participant's 2012 ESPP account will be reduced upon exercise of his or her option by the amount used to pay the purchase price of the shares acquired by the participant. No interest will be paid to any participant or credited to any account under the 2012 ESPP.

Eligibility. Only certain employees will be eligible to participate in the 2012 ESPP. All employees of the Company and any subsidiaries of the Company which have been designated by the Committee as eligible to participate in an offering period will generally be eligible to participate in such offering period. However, prior to the start of any offering period, the Committee may provide that the following employees will not be eligible to participate in such offering period:

employees whose customary employment is for not more than 20 hours per week;

employees whose customary employment is for not more than five months per calendar year; and

employees who are citizens or residents of a foreign jurisdiction if the grant of an option is prohibited under the local laws of the jurisdiction.

As of June 19, 2012, approximately 4,700 employees of the Company and its subsidiaries, including all of our named executive officers, were eligible to participate in the 2012 ESPP.

Limits on Authorized Shares; Limits on Contributions. If the Company's stockholders approve the 2012 ESPP, a maximum of 2,000,000 shares of the Company's common stock may be purchased under the 2012 ESPP.

Participation in the 2012 ESPP is also subject to the following limits:

A participant cannot contribute more than 15% of his or her compensation to the purchase of stock under the 2012 ESPP in any one payroll period.

A participant cannot purchase more than 1,000 shares of the Company's common stock under the 2012 ESPP with respect to any one offering period.

A participant cannot accrue rights to purchase more than \$25,000 of stock (valued at the Grant Date of the applicable offering period and without giving effect to any discount reflected in the purchase price for the stock) for each calendar year in which an option is outstanding.

A participant will not be granted an option under the 2012 ESPP if it would cause the participant to own stock and/or hold outstanding options to purchase stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or one of its subsidiaries or to the extent it would exceed certain other limits under the Code.

The Committee has the flexibility to change the 15% contribution limit and the individual 1,000 share limit referred to above for future offering periods without stockholder approval. However, we cannot increase the

aggregate share limit under the 2012 ESPP, other than to reflect stock splits and similar adjustments as described below, without stockholder approval. The \$25,000 and the 5% ownership limitations referred to above are required under the Code.

Termination of Employment. If a participant ceases to be an eligible employee for any reason, his or her payroll deductions will automatically cease, but the participant will generally continue to participate in the then in-progress offering period until the applicable Exercise Date. However, if the applicable Exercise Date occurs more than three months after the participant ceases to be an eligible employee, the participant's payroll deductions will be refunded to the participant and his or her outstanding options will terminate. Like other participants, a participant who ceases to be an eligible employee continues to have the right to withdraw from any offering period prior to the last day of the offering period, in which case the participant's payroll deductions will be refunded and the participant's outstanding options will terminate.

Corporate Transactions. Generally, if the Company undergoes certain corporate transactions, such as a merger, business combination, or other reorganization, or a sale of substantially all of its assets, in connection with which the Company does not survive (or does not survive as a public company), the Committee may provide for the assumption, substitution or other continuation of outstanding options. If the Committee does not provide for the assumption, substitution or other continuation of outstanding options upon the occurrence of such a corporate transaction, the then in-progress offering period will be shortened by establishing a new Exercise Date that is before the date of the corporate transaction.

Liquidation or Dissolution. If the Company proposes to dissolve or liquidate, unless otherwise provided by the Committee, the then in-progress offering period will be shortened by establishing a new Exercise Date that is before the date of the liquidation or dissolution.

Adjustments. As is customary in stock incentive plans of this nature, the number and type of shares of stock available under the 2012 ESPP or subject to outstanding options, as well as the purchase price of outstanding options and the share limits under the 2012 ESPP, are subject to adjustment in the event of certain reorganizations, mergers, combinations, recapitalizations, spin-offs, stock splits, stock dividends, extraordinary dividends or distributions of property to the stockholders or any similar unusual or extraordinary corporate transaction in respect of the Company's common stock.

Transfer Restrictions. A participant's rights with respect to options or the purchase of shares under the 2012 ESPP, as well as payroll deductions credited to his or her 2012 ESPP account, may not be assigned, transferred, pledged or otherwise disposed of in any way except by will or the laws of descent and distribution.

Amendments. The Committee generally may amend, suspend, or terminate the 2012 ESPP at any time and in any manner, provided that, with limited exceptions, the action may not adversely affect a participant's rights under his or her outstanding options. Stockholder approval for an amendment to the 2012 ESPP will generally only be required to the extent necessary to meet the requirements of Section 423 of the Code or to the extent otherwise required by law or applicable stock exchange rules.

Subplans. The Committee may adopt subplans applicable to particular subsidiaries of the Company which may be designed to be outside the scope of Section 423 of the Code.

Term. Subject to stockholder approval, the 2012 ESPP will become effective on October 1, 2012 and will continue in effect for a term of 10 years, unless terminated earlier by the Committee.

Federal Income Tax Consequences of the 2012 Employee Stock Purchase Plan

Following is a general summary of the current federal income tax principles applicable to the 2012 ESPP. The following summary is not intended to be exhaustive and, among other considerations, does not describe the

deferred compensation provisions of Section 409A of the Code to the extent an award is subject to and does not satisfy those rules, nor does it describe state, local or international tax consequences.

The 2012 ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the Code. Participant contributions to the 2012 ESPP through payroll deductions are made on an after-tax basis. That is, a participant's payroll deductions that are contributed to the 2012 ESPP are deducted from compensation that is taxable to the participant and for which the Company is generally entitled to a tax deduction.

Generally, no taxable income is recognized by a participant with respect to either the grant or exercise of his or her 2012 ESPP option. The Company will have no tax deduction with respect to either of those events. A participant will generally recognize income (or loss) only upon a sale or disposition of any shares that the participant acquires under the 2012 ESPP. The particular tax consequences of a sale or disposition of shares acquired under the 2012 ESPP depend on whether the participant has held the shares for a Required Holding Period before selling or disposing of the shares. The Required Holding Period ends on the later of (1) two years after the Grant Date of the offering period in which the participant acquired the shares, or (2) one year after the Exercise Date on which the participant acquired the shares.

If the participant holds the shares for the Required Holding Period and then sells the shares at a price in excess of the purchase price paid for the shares, the gain on the sale of the shares will be taxed as ordinary income to the participant to the extent of the lesser of (1) the amount by which the fair market value of the shares on the Grant Date of the offering period in which the participant acquired the shares exceeded the purchase price of the shares (calculated as though the shares had been purchased on the Grant Date), or (2) the gain on the sale of the shares. Any portion of the participant's gain on the sale of the shares not taxed as ordinary income will be taxed as long-term capital gain. If the participant holds the shares for the Required Holding Period and then sells the shares at a price less than the purchase price paid for the shares, the loss on the sale will be treated as a long-term capital loss to the participant. The Company will not be entitled to a tax deduction with respect to any shares held by the participant for the Required Holding Period, regardless of whether the shares are eventually sold at a gain or a loss.

The participant has a Disqualifying Disposition if the participant disposes of the shares before the participant has held the shares for the Required Holding Period. If the participant sells the shares in a Disqualifying Disposition, the participant will realize ordinary income in an amount equal to the difference between the purchase price paid for the shares and the fair market value of the shares on the Exercise Date on which the participant acquired the shares, and the Company generally will be entitled to a corresponding tax deduction. In addition, if the participant makes a Disqualifying Disposition of the shares at a price in excess of the fair market value of the shares on the Exercise Date, the participant will realize capital gain in an amount equal to the difference between the selling price of the shares and the fair market value of the shares on the Exercise Date. Alternatively, if the participant makes a Disqualifying Disposition of the shares at a price less than the fair market value of the shares on the Exercise Date, the participant will realize a capital loss in an amount equal to the difference between the fair market value of the shares on the Exercise Date and the selling price of the shares. The Company will not be entitled to a tax deduction with respect to any capital gain realized by a participant.

Specific Benefits under the 2012 Employee Stock Purchase Plan

The benefits that will be received by or allocated to eligible employees under the 2012 ESPP cannot be determined at this time because the amount of payroll deductions contributed to purchase shares of the Company's common stock under the 2012 ESPP (subject to these, strategic objectives, long-term organizational performance and the overall enhancement of stockholder value. Our Board assesses and considers the risks we face on an ongoing basis, including risks that are associated with our financial position, our competitive position, the impact of our operations on our cost structure, our historical reliance on a small number of distributors, and our reliance on single source suppliers for some of our components. Our Board's approach to risk management includes understanding the risks we face, analyzing them with the latest information available, and determining the steps that should be taken to manage those risks, with a view toward the appropriate level of risk for a company of our size and financial condition.

Certain committees of our Board actively manage risk within their given purview and authority. Our Audit Committee, for example, reviews our disclosure controls and our internal controls over financial reporting on a quarterly basis, including our overall risk assessment and our processes and procedures for assessing risks. In addition, our Compensation Committee, in setting performance metrics, creates incentives for our senior executives that encourage only an appropriate level of risk-taking that is commensurate with our Company's short-term and long-term strategies and their attendant risks.

Board Composition and Qualifications

Each Board Nominee brings a strong and unique set of skills and background to our Board, and gives our Board as a whole substantial experience and competence in a wide variety of areas, including board of directors service, executive management, medical device, capital equipment, specialty healthcare, consumer products, sales and marketing, international operations, public accounting, corporate finance, risk assessment, and manufacturing.

Board Leadership Structure

Our Board currently consists of five non-management directors and our Acting Chief Executive Officer, Mr. Nugent. Mr. Clark, one of our independent directors, is Chairman of our Board. Our Board has no policy requiring that the positions of the Chairman of the Board and the Chief Executive Officer be separate or that they be occupied by the same individual. Our Board believes that this issue is properly addressed as part of the succession planning process and that it is in the best interests of the Company for our Board to determine whether to combine the positions from time to time, including when it elects a new permanent Chief Executive Officer.

Director Independence

Our Board has determined that Norman J. Nemoy (a director since July 2010 who has not been nominated for re-election at our annual meeting), former directors Erin S. Enright, Gregory E. Lichtwardt and Samuel B. Low and each of the Board Nominees other than Mr. Nugent are independent directors as defined by the listing standards of the NASDAQ Marketplace Rules (*NASDAQ Rules*) and the rules and regulations of the SEC. Mr. Pignatelli was determined to not be independent based on his service beginning in November 2007 as our interim Chief Executive Officer and based on his service, since January 2008, as our President, and as our Chief Executive Officer from September 2010 until June 2014, and Mr. Nugent was determined not to be independent based on his current service as our current Acting Chief Executive Officer.

Board Committees and Meetings

Our Board held seven meetings (including regularly scheduled and special meetings) during the year ended December 31, 2013. During 2013, each person currently serving as a director attended at least 75% of the

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aggregate of (i) the total number of meetings of our Board held during the period for which he was a director and (ii) the total number of meetings held by all committees of our Board on which such director served during the period for which he served. Although we have no policy with regard to director attendance at our annual meetings of stockholders, it is customary for, and we encourage, all of our directors to attend our annual meetings of stockholders. Two of our directors attended our 2013 annual meeting of stockholders.

Our Board has established three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Each committee operates pursuant to a written charter that has been approved by our Board. A copy of the current charter for each of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee is available on our website at www.biolase.com.

Audit Committee. The Audit Committee currently consists of Mr. Talevich and Drs. Moll and Nemoy. Mr. Talevich serves as its chairman. Our Board has determined that Mr. Talevich qualifies as the audit committee financial expert under the SEC rules and meets the financial sophistication requirements of the NASDAQ Rules. Mr. Talevich is independent, as independence of audit committee members is defined in the NASDAQ Rules.

The primary responsibilities of the Audit Committee include, but are not limited to: (i) the appointment, compensation and oversight of the work of our independent auditor; (ii) reviewing the reports of the independent auditors regarding our accounting practices and systems of internal accounting controls, as applicable; (iii) reviewing our financial reports, our accounting and financial policies in general, and management's procedures and policies with respect to our internal accounting controls; and (iv) reviewing the independence qualifications and quality controls of the independent auditor. The Audit Committee held eight meetings during 2013.

Compensation Committee. The Compensation Committee currently consists of Mr. Clark and Drs. Moll and Nemoy. Mr. Clark serves as its chairman. Each of the current members of the Compensation Committee qualifies as a non-employee director under SEC rules and regulations and as an outside director under the Internal Revenue Code, as amended (the *Code*).

The Compensation Committee's primary responsibilities include, but are not limited to: (i) reviewing and developing our general compensation policies; (ii) reviewing and approving the compensation of our Chief Executive Officer and other executive officers, including salary, bonus, long-term incentive and equity compensation, and any other perquisites or special benefits; (iii) making awards under and acting as administrator of our equity incentive plans; (iv) overseeing administration of our other employee benefit plans; (v) making recommendations to our Board regarding director compensation; and (vi) producing an annual report on executive compensation for inclusion in our annual proxy statement. The charter for the Compensation Committee requires it to meet at least twice annually. The Compensation Committee held one meeting during 2013.

For compensation decisions relating to our executive officers other than our Chief Executive Officer, our Compensation Committee has historically considered the recommendations of our Chief Executive Officer, based on his assessment of each executive officer's position and responsibilities, experience and tenure, his observations of each executive officer's performance during the year and his review of competitive pay practices. Our Chief Executive Officer does not have a role in determining or recommending director compensation. When Mr. Pignatelli was our Chief Executive Officer, he regularly attended Compensation Committee meetings, but abstained from portions of meetings at the request of members of the Compensation Committee to enable it to freely consider issues related to the compensation of our Chief Executive Officer. The Compensation Committee has the sole authority to retain consultants and advisors as it may deem appropriate in its discretion, and the Compensation Committee has the sole authority to approve related fees and other retention terms.

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Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee currently consists of Mr. Clark, Mr. Talevich and Dr. Nemoy. Mr. Clark serves as its chairman. The Nominating and Corporate Governance Committee is responsible for, among other things: (i) identifying individuals who are qualified to be members of our Board and selecting or recommending that our Board select the nominees for directorships; (ii) to the extent deemed appropriate by the committee, developing and recommending to our Board a set of corporate governance principles for the Company; (iii) establishing the criteria and procedures for selecting new directors; (iv) overseeing the process for evaluating our Board and management; and (v) reviewing and reassessing, at least annually, the adequacy of the Nominating and Corporate Governance Committee, including the compliance of the committee with its charter. The Nominating and Corporate Governance Committee held four meetings during 2013.

The Nominating and Corporate Governance Committee considers candidates for membership to our Board suggested by its members and our other Board members, as well as by our management and stockholders. The Nominating and Corporate Governance Committee may also retain a third-party executive search firm to identify candidates. All recommendations submitted by stockholders should be submitted to the Nominating and Corporate Governance Committee to the attention of the Corporate Secretary. The stockholder must submit a detailed resume of the candidate and an explanation of the reasons why the stockholder believes this candidate is qualified for service on our Board. The stockholder must also provide such other information about the candidate that would be required by the SEC rules to be included in a proxy statement. In addition, the stockholder must include the consent of the candidate and describe any relationships, arrangements or undertakings between the stockholder and the candidate regarding the nomination or otherwise. The stockholder must also submit proof of stockholdings in the Company. All communications are to be directed to the Chairperson of the Nominating and Corporate Governance Committee, to the attention of the Corporate Secretary, BIOLASE, Inc., 4 Cromwell, Irvine, California 92618. A stockholder wishing to formally nominate a director for election at a stockholder meeting must comply with the provisions in the Company's bylaws addressing stockholder nominations of directors.

The Nominating and Corporate Governance Committee focuses on the following criteria in determining whether a candidate is qualified to serve on our Board: (i) personal and professional integrity, ethics and values; (ii) experience in corporate management, such as serving as an officer or former officer of a publicly held company; (iii) experience in the Company's industry and with relevant social policy concerns; (iv) experience as a board member of another publicly held company; (v) academic expertise in an area of the Company's operations; (vi) practical and mature business judgment; (vii) whether the candidate has the time required for preparation, participation and attendance at meetings; and (viii) requirements relating to Board and Board committee composition under applicable law and NASDAQ Rules. The Nominating and Corporate Governance Committee, and our Board, may also consider the overall diversity of our Board when making a determination on qualification for service on our Board to ensure that our Board is able to represent the best interests of all of our stockholders and to encourage innovative solutions and viewpoints by considering background, education, experience, business specialization, technical skills and other factors with respect to a particular candidate, as compared to composition of our Board at a given time. The Nominating and Corporate Governance Committee does not have a specific policy with regard to the consideration of director candidates recommended by stockholders, because the Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders on the same basis that it evaluates other nominees for director.

Stockholder Communications

Any stockholder who wishes to communicate with our Board or any individual director may send written communications to our Board or such director c/o Corporate Secretary, BIOLASE, Inc., 4 Cromwell, Irvine, California 92618. The communication must include the stockholder's name, address and an indication that the person is our stockholder. The Corporate Secretary will review any communications received from stockholders and will forward such communications to the appropriate director or directors, or committee of our Board, based on the subject matter.

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Section 16(a) Beneficial Ownership Reporting Compliance

The members of our Board, executive officers and beneficial holders of more than ten percent of the outstanding shares of our common stock are subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 (the *Exchange Act*) which requires them to file reports with respect to their ownership of our securities. To our knowledge, based solely upon the copies of Section 16(a) reports and written representations which we received from such persons for their 2013 fiscal year transactions in our common stock and their common stock holdings, we believe that all reporting requirements under Section 16(a) for such fiscal year were met in a timely manner by our directors, executive officers and greater than ten percent beneficial owners.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics. This code of ethics applies to our directors, executive officers and employees. This code of ethics is publicly available in the corporate governance section of the stockholder relations page of our website located at <http://www.biolase.com/Pages/Investors> and in print upon request to the Secretary at BIOLASE, Inc., 4 Cromwell, Irvine, California, 92618. If we make amendments to the code of ethics or grant any waiver that we are required to disclose, we will disclose the nature of such amendment or waiver on our website.

Table of Contents**DIRECTOR COMPENSATION**

The following table sets forth all compensation earned or paid to our directors during the year ended December 31, 2013. Mr. Pignatelli, our former Chief Executive Officer and Chairman of the Board, did not earn additional Board fees for his services as a director in 2013. Dr. Arrow did not earn Board fees for his services as a director from June 6, 2013 through December 31, 2013 after becoming our President and Chief Operating Officer.

Name	Board Fees Paid in Cash \$(1)	Option Awards \$(2)	Other Compensation (\$)	Total (\$)
Erin S. Enright(10)	\$ 11,125(3)	75,952	\$ 0	\$ 87,077
Gregory E. Lichtwardt(10)	20,375(4)	42,655	0	63,030
Samuel B. Low, D.D.S.(10)	0(5)	28,025	22,415(6)	50,440
Frederic H. Moll, M.D.	0(7)	124,237	0	124,237
Norman J. Nemoy, M.D.	26,000(8)	42,655	0	68,655
James R. Talevich	0(9)	28,025	0	28,025

- (1) Our non-employee directors were paid a \$42,000 annual retainer. The chairmen of the Audit and Compensation Committees were paid an additional annual fee of \$5,000 and committee members were paid an additional annual fee of \$2,500. The chairman of the Nominating and Corporate Governance Committee was paid an additional annual fee of \$3,000 and committee members were paid an additional annual fee of \$1,500. Directors were permitted to elect to receive their annual retainers and additional fees for serving on any Board committees or as a chairman of a committee in the form of options instead of cash. Directors are reimbursed for reasonable travel and lodging expenses incurred by them in attending Board and committee meetings.
- (2) Amounts reported reflect the aggregate grant date fair value of options granted to our directors for the current fiscal year. These amounts do not reflect actual payments made to our directors. There can be no assurance that the full grant date fair value will ever be realized by any director. At our 2013 annual meeting of stockholders, our non-employee directors were automatically granted options to acquire 20,000 shares of our common stock upon election or re-election on our annual meeting date. We refer to the program under which such grants are made upon election or appointment as the *Automatic Option Grant Program*. Under the Automatic Option Grant Program, during 2013, newly appointed directors were granted options to acquire 20,000 shares of our common stock upon appointment, plus an additional number of options equal to the product of 1,250 and one plus the number of whole calendar months that will have elapsed between the date of appointment and the anticipated date of the next annual meeting.
- (3) Reflects compensation paid to Ms. Enright in her capacity as a director from June 7, 2013 until her resignation on December 4, 2013. Ms. Enright served as a member of the Audit Committee.
- (4) Reflects compensation paid to Mr. Lichtwardt in his capacity as a director from January 1, 2013 until his resignation on December 4, 2013. Mr. Lichtwardt served as a member of the Audit and Compensation Committees, including chairman of the Audit Committee from June 6, 2013 until his resignation.
- (5) Dr. Low was appointed as a director on December 10, 2013, and served as a member of the Audit Committee until his resignation on February 28, 2014.
- (6) Fees paid to Dr. Low for consulting services.
- (7) Dr. Moll was appointed as a director on June 7, 2013, and served as a member of the Audit, Compensation, and Nominating and Corporate Governance Committees.
- (8) Dr. Nemoy served as a member of the Audit, Compensation, and Nominating and Corporate Governance Committees and became the chairman of the Audit and Nominating and Corporate Governance Committees effective June 6, 2013.
- (9) Mr. Talevich was appointed as a director on December 10, 2013, and serves as the chairman of the Audit Committee.
- (10) Former director of the Company.

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The following table sets forth the aggregate grant date fair value of each stock option grant awarded to our non-employee directors in 2013.

Director	Grant Date	Exercise Price	Number of Shares Underlying Options Originally Granted	Aggregate Grant Date Fair Value
Erin S. Enright	June 7, 2013(1)	\$ 4.07	35,000	\$ 75,952
Gregory E. Lichtwardt	June 6, 2013(2)	4.00	20,000	42,655
Samuel B. Low, D.D.S.	December 10, 2013(3)	1.73	27,500	28,025
Frederic H. Moll, M.D.	June 7, 2013(1)	4.07	57,250	124,237
Norman J. Nemoy, M.D.	June 6, 2013(2)	4.00	20,000	42,655
James R. Talevich	December 10, 2013(3)	1.73	27,500	28,025

- (1) On June 7, 2013, Dr. Moll and Ms. Enright received 35,000 options to acquire shares of stock under the Automatic Option Grant Program. Dr. Moll also received 22,250 options to acquire shares of stock in lieu of his \$42,000 annual retainer and \$2,500 fee for service of the Compensation Committee.
- (2) On June 6, 2013, Dr. Nemoy and Mr. Lichtwardt received 20,000 options to acquire shares of stock under the Automatic Option Grant Program.
- (3) On December 10, 2013, Dr. Low and Mr. Talevich received 27,500 options to acquire shares of stock under the Automatic Option Grant program.

The grant date fair value for the December 10, 2013 option grants to Dr. Low and Mr. Talevich was \$1.02, which was determined using the Black-Scholes option valuation model with the following assumptions: market price of \$1.73, exercise price of \$1.73, expected volatility of 84.7%, risk free interest rate of 1.46%, expected option life of 3.6 years, and an expected dividend yield of 0%.

The grant date fair value for the June 7, 2013 option grants to Dr. Moll and Ms. Enright was \$2.17, which was determined using the Black-Scholes option valuation model with the following assumptions: market price of \$4.07, exercise price of \$4.07, expected volatility of 75.3%, risk free interest rate of 1.10%, expected option life of 3.6 years, and an expected dividend yield of 0%.

The grant date fair value for the June 6, 2013 option grants to Dr. Nemoy and Mr. Lichtwardt was \$2.13, which was determined using the Black-Scholes option valuation model with the following assumptions: market price of \$4.00, exercise price of \$4.00, expected volatility of 75.3%, risk free interest rate of 1.01%, expected option life of 3.6 years, and an expected dividend yield of 0%.

Under the Automatic Option Grant Program individuals who are appointed or elected to our Board as a non-employee director at an annual meeting of stockholders are automatically granted an option to purchase 20,000 shares of our common stock. In addition, under the Automatic Option Grant Program newly appointed non-employee directors are automatically granted an option to purchase the number of shares of our common stock equal to the sum of (a) 20,000 and (b) the product of (i) 1,250 and (ii) one plus the number of whole calendar months that will have elapsed between the date of appointment to our Board and the anticipated date of the next annual meeting of stockholders. On July 15, 2014, the Compensation Committee approved a change to our director compensation program such that, beginning with our 2014 annual meeting of stockholders, director annual compensation will consist of equity awards valued at \$80,000. 75% of the value of such equity awards will be delivered as options to purchase shares of our common stock and 25% of the value of such equity awards will be delivered as restricted stock units. Such options to purchase shares of our common stock will be granted pursuant to and in accordance with the Automatic Option Grant Program until the limit of such automatic grants is reached. Directors will no longer receive cash compensation.

Each annual option grant vests over one year in equal quarterly increments, with the first vesting date occurring three months after the date of grant, except in the case of initial option grants for non-employee directors, which vest in monthly installments upon the non-employee director's completion of each month of service as a non-employee director measured from the option grant date. Vesting is accelerated in full if certain

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changes in control or ownership occur or if the optionee dies or becomes disabled while serving as a director. Each option has an exercise price per share equal to the closing sale price of our common stock on the date of grant and has a maximum term of ten years, subject to earlier termination on the first anniversary of the director's cessation of our Board service for any reason. Each automatic option is immediately exercisable for all of the option shares and the director would receive unvested shares for each unvested option exercised. However, any unvested shares are subject to repurchase by us, at the lower of the exercise price paid per share or the fair market value per share (determined at the time of repurchase), should the director cease Board service prior to vesting of those shares.

The following table sets forth the number of shares underlying outstanding stock options (vested and unvested) held by each of our current and former non-employee directors as of December 31, 2013. Our directors did not hold any unvested shares of restricted stock as of December 31, 2013.

Director	Shares Underlying Options Outstanding at Fiscal Year End
Alexander K. Arrow, M.D.	474,500(1)(2)
Erin Enright	8,750(3)
Gregory E. Lichtwardt	115,750(3)
Sam Low, D.D.S.	27,500(2)
Frederic H. Moll, M.D.	57,250
Norman J. Nemoy, M.D.	153,500
James R. Talevich	27,500

- (1) Includes 350,000 options granted to Dr. Arrow on June 6, 2013 as President and Chief Operating Officer.
(2) Drs. Arrow and Low resigned as directors on February 28, 2014.
(3) Ms. Enright and Mr. Lichtwardt resigned as directors on December 4, 2013.

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COMPENSATION DISCUSSION AND ANALYSIS

This compensation discussion and analysis section discusses the compensation policies and programs for our named executive officers, which consist of: Federico Pignatelli, our former Chairman of the Board and Chief Executive Officer, effective from September 30, 2010 until his resignation on June 12, 2014; Alexander K. Arrow, M.D., our President and Chief Operating Officer, effective June 6, 2013; Frederick D. Furry, our Chief Financial Officer, effective November 30, 2010; Dmitri Boutoussov, our Vice President of Engineering and Chief Technology Officer; and Michael Stevens, our Director of Professional Relations and a Territory Sales Manager, who resigned on May 1, 2014. The Compensation Committee of our Board of Directors is primarily responsible for overseeing the development and administration of the total compensation program for corporate officers and key executives, and administering our executive incentive bonus and stock plans.

Compensation Objectives

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

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

Determination of Compensation Awards

The Compensation Committee determines the compensation to be paid to our executive officers. The Compensation Committee periodically reviews the total compensation levels and the distribution of compensation among the compensation elements identified above for each of our executive officers. The Compensation Committee determines the total compensation levels for our executive officers by considering each executive officer's position and responsibilities, the individual's performance of his job-related duties and responsibilities and our financial performance, in the context of our compensation policies and objectives and competitive market data applicable to each executive officer's position. Our approach is to consider competitive compensation practices as a relevant factor rather than establishing compensation at specific benchmark percentiles. This enables us to respond to dynamics in the labor market and provides us with flexibility in maintaining and enhancing our executive officers' engagement, focus, motivation and enthusiasm for our future.

The principal factors that were taken into account in establishing each executive officer's compensation package for 2013 are described below. The Compensation Committee may in its discretion apply entirely different factors, such as different measures of financial performance, for future years.

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In addition, the Compensation Committee periodically reviews peer group data. The Compensation Committee believes that our most direct competitors for executive talent include significantly larger and better-capitalized companies in the medical device industry, comprising a broader range of companies than those with which we usually are compared for purposes of stock performance.

Components of Compensation

During the 2013 fiscal year, our executive officers' compensation was composed of base salary, annual incentive bonuses, equity compensation, certain perquisites, and, in one case, a potential severance payment payable upon certain events, including a qualifying termination of the executive officer's employment subsequent to a change of control of the Company.

The Compensation Committee monitors the results of the annual advisory say-on-pay proposal and incorporates such results as one of many factors considered in connection with the discharge of its responsibilities, although no such factor is assigned a quantitative weighting. Because a substantial majority of our stockholders approved the compensation program described in our proxy statement in 2013, the Compensation Committee did not implement changes to our executive compensation program as a result of the stockholder advisory vote.

Base Salaries

Our executive officers' base salaries are assessed annually by the Compensation Committee, taking into account each officer's position and responsibilities, including accomplishments and contributions, experience and tenure. In addition, the Compensation Committee considered the stockholders' previous approval, on an advisory basis, the compensation of the Company's named executive officers, as well as the Company's recent performance and current market conditions.

Mr. Pignatelli. In August 2010 Mr. Pignatelli was appointed to the position of Acting Chief Executive Officer at an annual salary of \$1.00. Mr. Pignatelli was appointed our permanent Chief Executive Officer on September 30, 2010 and continued to receive a symbolic annual cash salary of \$1.00 until his resignation on June 12, 2014.

Dr. Arrow. Dr. Arrow's current annual base salary was set, at the time of his hire as our President and Chief Operating Officer on June 6, 2013, at \$250,000. His base salary was negotiated and was based on comparable market data, and our compensation goals and objectives.

Mr. Furry. Mr. Furry's annual base salary was increased from \$195,000 to \$220,000 on December 14, 2013. His base salary was negotiated and was based on comparable market data, and our compensation goals and objectives.

Mr. Boutoussov. Mr. Boutoussov's annual base salary is \$250,000. His base salary was negotiated and was based on comparable market data, and our compensation goals and objectives.

Mr. Stevens. Mr. Stevens was our Director of Professional Relations and a Territory Sales Manager until he resigned on May 1, 2014. His base salary of \$90,000 was negotiated and was based on comparable market data, and our sales compensation goals and objectives.

Annual Bonuses

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

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Mr. Pignatelli. Pursuant to his request, Mr. Pignatelli was not eligible to receive any annual bonus for 2011, 2012, or 2013.

Dr. Arrow. Dr. Arrow joined us in June 2013 as President and Chief Operating Officer and is eligible to receive a bonus based upon achieving certain financial and operational metrics as may be established from time to time by the Compensation Committee. No bonus was paid to, or accrued for, Dr. Arrow for the year ended December 31, 2013.

Mr. Furry. No formal annual bonus opportunity was set for Mr. Furry in 2011, 2012, or 2013. Mr. Furry received a discretionary bonus of \$10,000 in May 2013.

Mr. Boutoussov. No formal annual bonus opportunity was set for Mr. Boutoussov in 2011, 2012, or 2013. Mr. Boutoussov earned a bonus of \$70,000 in 2011.

Mr. Stevens. No formal annual bonus opportunity was set for Mr. Stevens in 2011, 2012, or 2013. No bonus was paid to, or accrued for, Mr. Stevens for the year ended December 31, 2013.

Stock-Based Incentive Awards

Stock-based incentives are designed to align the interests of our executive officers with those of our stockholders and provide each individual with a significant incentive to manage us from the perspective of an owner with an equity stake in the business. Stock options allow the officers to acquire shares of our common stock at a fixed price per share (which is at least the closing sale price of our stock on the grant date) over a specified period of time. Stock options generally become exercisable in a series of installments over either a three- or four-year period, contingent upon the officer's continued employment with us. Accordingly, stock options provide a return to the executive officer only if he remains employed by us during the vesting period, and then only if the market price of the shares appreciates over the option term. As such, stock options not only reward our corporate performance but are also a key retention tool. The size of the option grant to each executive officer, including any grant considered for the Chief Executive Officer and our other named executive officers, is set at a level that is intended to create a meaningful opportunity for stock ownership based on the individual's position with us, the individual's performance of his job related duties and responsibilities in recent periods and his or her potential for future responsibility and promotion over the option term. The Compensation Committee also takes into account the number of unvested options held by the executive officer in order to maintain an appropriate level of equity incentive for that individual. The weight given to each of these factors varies from individual to individual.

Mr. Pignatelli. Options to acquire 35,000 shares of our common stock at an exercise price of \$5.34 and 100,000 shares of our common stock at an exercise price of \$2.58 were granted to Mr. Pignatelli in May 2011 and December 2011, respectively, in his capacity as an officer of the Company. The May 2011 stock option vested and became exercisable immediately. The December stock option originally was to vest and become exercisable over forty-eight equal monthly installments commencing December 23, 2011, subject to Mr. Pignatelli's continued employment with us. In March 2012, the unvested shares were accelerated and subsequently exercised for cash. On November 8, 2012, Mr. Pignatelli was granted stock options to acquire 100,000 shares at an exercise price of \$2.50, which options vested and became exercisable over twelve equal monthly installments commencing November 8, 2012. The Compensation Committee considered these grants as necessary and appropriate for Mr. Pignatelli's services. No options were granted to Mr. Pignatelli in 2013.

Dr. Arrow. At the time of his hire on June 6, 2013, Dr. Arrow was granted options to acquire 350,000 shares of our common stock at an exercise price of \$4.00 per share. The June 2013 option shall vest and be exercisable over 16 equal quarterly installments beginning on June 6, 2014, subject to Dr. Arrow's continued employment with us. The June 2013 option has a seven year life and contains certain change in control language. The Compensation Committee considered this grant as necessary and appropriate for Dr. Arrow's services.

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Mr. Furry. Options to acquire 47,500 shares of our common stock at an exercise price of \$2.58 were granted to Mr. Furry in December 2011 and options to acquire 50,000 shares of our common stock at an exercise price of \$5.00 were granted to Mr. Furry in March 2013. The December 2011 stock option vests and becomes exercisable over forty-eight equal monthly installments commencing December 23, 2011 and the March 2013 stock option vests and becomes exercisable over forty-eight equal monthly installments commencing March 23, 2013, both subject to Mr. Furry's continued employment with us. The Compensation Committee considered these grants as necessary and appropriate for Mr. Furry's services. No options were granted to Mr. Furry in 2012.

Mr. Boutoussov. Options to acquire 50,000 shares of our common stock at an exercise price of \$5.00 were granted to Mr. Boutoussov in March 2013. The March 2013 stock option vests and becomes exercisable over forty-eight equal monthly installments commencing March 23, 2013, subject to Mr. Boutoussov's continued employment with us. The Compensation Committee considered this grant as necessary and appropriate for Mr. Boutoussov's services. No options were granted to Mr. Boutoussov in 2011 or 2012.

Mr. Stevens. No options were granted to Mr. Stevens in 2011, 2012, or 2013.

Policies with Respect to Equity Compensation Award Determinations

We do not time the award of stock option grants in advance of material announcements in order to achieve lower exercise prices. In the past, we have not granted any equity compensation awards other than stock options. Our policy is that stock options are granted with an exercise price equal to or greater than the closing price of our common stock on the date of grant, and that all option grants are approved in advance of or on the date of the grant. The Secondary Stock Option Committee (consisting of our Chief Executive Officer and Chief Financial Officer) is delegated authority by our Board to approve stock option grants in an amount not to exceed 12,000 shares per person and only for newly-hired employees and in compliance with the express terms and conditions of our 2002 Stock Incentive Plan. For stock option grants to new employees, our policy is that they be issued on, and receive an exercise price equal to or greater than the closing stock price of our common stock on such employee's start date, presuming that the award was pre-approved by the Secondary Stock Option Committee. Grants to employees that exceed 12,000 shares are first reviewed with our Board or the Compensation Committee. The Chief Executive Officer must review these grants at least semiannually with the Compensation Committee.

Perquisites and Other Benefits

The Company does not generally provide any perquisites, except for a car allowance that is provided to Mr. Stevens in connection with his Territory Sales Manager role.

Severance and Change of Control Arrangements

Messrs. Furry and Boutoussov and Dr. Arrow are employed by the Company on an at will basis, and they do not have any employment agreements or severance provisions. Each of Mr. Pignatelli and Mr. Stevens was employed on an at will basis prior to his resignation on June 12, 2014 and May 1, 2014, respectively. Certain of Dr. Arrow's options immediately vest and become exercisable in the event of a qualifying termination of employment following a change in control of the Company. Mr. Boutoussov has an agreement that provides certain benefits in the event of a qualifying termination of employment following a change in control of the Company. Prior to his resignation on May 1, 2014, Mr. Stevens also had an agreement that provided certain benefits in the event of a qualifying termination of employment following a change in control of the Company. As of December 31, 2013, Mr. Boutoussov's and Mr. Stevens' change in control benefits totaled approximately \$273,000 and \$117,000, respectively, which represented one year of salary and certain medical and dental benefits. Messrs. Pignatelli and Furry do not have any change in control agreements with the Company.

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Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code disallows a tax deduction to publicly held companies for compensation paid to certain of their executive officers to the extent that such compensation exceeds \$1.0 million per covered officer in any fiscal year. The limitation applies only to compensation that is not considered to be performance-based. Nonperformance-based compensation paid to our executive officers for the 2013 fiscal year did not exceed the \$1.0 million limit per officer, and we do not expect the nonperformance-based compensation to be paid to our executive officers for the 2014 fiscal year to exceed that limit. Our option grants under our 2002 Stock Incentive Plan are intended to qualify as performance-based compensation.

There are certain circumstances under which our Board and Compensation Committee may decide to exceed the deductibility limit imposed under Section 162(m) or to otherwise pay non-deductible compensation. These circumstances may include maintaining a competitive salary for a named executive officer position or attracting highly qualified executives to join us and to promote their retention with compensation that is not performance based as part of their initial employment offers. Because it is unlikely that the cash compensation payable to any of our executive officers in the foreseeable future will approach the \$1.0 million limit, we do not expect to take any action to limit or restructure the elements of cash compensation payable to our executive officers so as to qualify that compensation as performance-based compensation under Section 162(m). We will reconsider this decision should the individual cash compensation of any executive officer ever approach the \$1.0 million level.

Compensation Committee Interlocks and Insider Participation

None of the current members of the Compensation Committee was an officer or employee of the Company during the year ended December 31, 2013, or in any prior year, and none of the members of the committee had any relationship requiring disclosure under Item 404 of Regulation S-K. There were no Compensation Committee interlocks as described in Item 407(e)(4) of Regulation S-K.

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COMPENSATION COMMITTEE REPORT

The Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis included in the Company's 2013 Annual Report on Form 10-K, and based on its review and discussions, the Compensation Committee recommended to the Board of Directors that such Compensation Discussion and Analysis be included in the Company's 2013 Annual Report on Form 10-K. In addition, the Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth above, and based on its review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis set forth above be included in this Proxy Statement for the 2014 Annual Meeting of Stockholders.

Submitted by the Compensation Committee of our Board:

Norman J. Nemoy, Chairman
Paul N. Clark

Frederic H. Moll

Date: July 13, 2014

The foregoing Compensation Committee Report is not soliciting material, is not deemed filed with the SEC, and shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing of ours under the Securities Act of 1933, as amended, or under the Exchange Act, except to the extent we specifically incorporate this report by reference.

Table of Contents**EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table shows compensation information for each of our named executive officers (*NEOs*):

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)(1)	Non-Equity Incentive	All Other Compensation (\$)	Total (\$)
					Plan Compensation (\$)		
Federico Pignatelli Former Chief Executive Officer & Former Chairman of the Board	2013	\$ 1(2)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1
	2012	1(2)	0	83,448	0	1,000	84,449
	2011	1(2)	0	323,069	0	0	323,070
Alexander K. Arrow, M.D. President and Chief Operating Officer	2013	131,832	0	746,462	0	13,750(3)	892,044
Frederick D. Furry Chief Financial Officer	2013	195,402	10,000	118,137	0	0	323,539
	2012	181,824	0	0	0	0	181,824
	2011	180,156	0	89,614	0	0	269,770
Dmitri Boutoussov Vice President of Engineering & Chief Technology Officer	2013	250,000	0	118,137	0	0	368,137
	2011	239,583	70,000	0	0	0	309,583
Michael Stevens Former Director of Territory Relations & Territory Sales Manager	2013	90,004	0	0	235,502(4)	15,515	341,021
	2011	94,000	0	0	149,372(4)	5,400	248,722

- (1) The dollar amounts in this column reflect the aggregate grant date fair value of options granted to our NEOs for each of the applicable fiscal years. See Note 2 to our audited financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for a description of the assumptions underlying the calculation of grant date fair value. These amounts do not reflect actual payments made to our NEOs. There can be no assurance that the full grant date fair value will ever be realized by any NEO.
- (2) Mr. Pignatelli voluntarily agreed to an annual cash salary of \$1.00 for the years ended December 31, 2013, 2012, and 2011.
- (3) Dr. Arrow's other compensation for the year ended December 31, 2013 consists of fees paid to Dr. Arrow for his services as a non-employee director prior to becoming our President and Chief Operating Officer in June 2013. Dr. Arrow served as chairman of the Audit and Compensation Committees and member of the nominating and Corporate Governance Committee while a non-employee director from January 1, 2013 through June 5, 2013.
- (4) Paid sales commissions.

Table of Contents**Grants of Plan-Based Awards in 2013**

The following table presents information regarding annual incentive bonus awards and equity incentive awards granted to the named executive officers during 2013.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (1)(#)	Exercise or Base Price of Option Awards (2)(\$)	Grant Date Fair Value of Option Awards (3)(\$)
Federico Pignatelli Former Chief Executive Officer & Former Chairman of the Board	N/A	N/A	N/A	N/A
Alexander K. Arrow, M.D. President & Chief Operating Officer	June 6, 2013	350,000	4.00	746,462
Frederick D. Furry Chief Financial Officer	March 23, 2013	50,000	5.00	118,137
Dmitri Boutoussov Vice President of Engineering & Chief Technology Officer	March 23, 2013	50,000	5.00	118,137
Michael Stevens Former Director of Territory Relations & Territory Sales Manager	N/A	N/A	N/A	N/A

- (1) Amounts shown in this column represent stock options granted in 2013, as described under the caption Compensation Discussion and Analysis Stock Based Incentive Awards.
- (2) Each option grant has an exercise price equal to, or greater than, the closing stock price of common stock at the time of grant.
- (3) The grant date fair value for the June 6, 2013 option grant was \$2.13, and was determined using the Black-Scholes option valuation model with the following assumptions: market price of \$4.00, exercise price of \$4.00, expected volatility of 75.3%, risk free interest rate of 1.01%, expected option life of 3.6 years, and an expected dividend yield of 0%. The grant date fair value for the March 23, 2013 option grants was \$2.36, and was determined using the Black-Scholes option valuation model with the following assumptions: market price of \$4.00, exercise price of \$5.00, expected volatility of 92.7%, risk free interest rate of 0.80%, expected option life of 3.7 years, and an expected dividend yield of 0%.

Table of Contents**Outstanding Equity Awards at Fiscal Year-End 2013**

The following table sets forth summary information regarding the outstanding equity awards held by each of our named executive officers at December 31, 2013. During the years ended December 31, 2013, 2012, and 2011, other than options we did not grant equity awards to our named executive officers.

Name	Option Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Federico Pignatelli	30,000(1)	0	11.96	5/26/14
Former Chief Executive Officer & Former Chairman of the Board	30,000(1)	0	5.81	11/15/15
	30,000(1)	0	10.40	4/20/16
	15,000(1)	0	5.94	5/16/17
	35,000	0	5.34	5/5/16(2)
	100,000	0	2.50	11/8/17(2)
Alexander K. Arrow, M.D.	35,000(3)	0	1.77	11/4/15(4)
President & Chief Operating Officer	21,000(3)	0	5.34	5/5/16(4)
	0	350,000	4.00	6/6/20
	28,500(3)	0	1.15	7/19/20(4)
	20,000(3)	0	5.34	5/5/21(4)
	20,000(3)	0	2.56	5/10/22(4)
Frederick D. Furry	150,000	0	2.00	11/30/15
Chief Financial Officer	23,750	23,750	2.58	12/23/18
	12,500	37,500	5.00	3/23/18
Dmitri Boutoussov	20,000	0	14.06	6/8/14
Vice President Engineering & Chief Technology Officer	25,000	0	8.33	11/19/14
	5,000	0	6.66	12/2/15
	123,000	0	2.00	12/22/15
	20,000	0	8.46	12/20/16
	75,000	0	4.00	12/17/17
	12,500	37,500	5.00	3/23/18
Michael Stevens	500	0	8.52	8/11/14(5)
Former Director of Professional Relations & Territory Sales Manager	500	0	6.31	10/20/14(5)
	5,000	0	7.14	6/1/15(5)
	10,000	0	6.66	12/2/15(5)
	6,189	0	2.00	12/22/15(5)
	5,000	0	7.19	1/23/16(5)
	10,000	0	4.00	12/12/17(5)

- (1) Options held by Mr. Pignatelli that were granted to him as part of his director compensation.
- (2) As a result of his resignation as Chief Executive Officer on June 12, 2014, Mr. Pignatelli's employee options expire on September 10, 2014.
- (3) Options held by Dr. Arrow that were granted to him as part of his director compensation.
- (4) As a result of his resignation as a director on February 28, 2014, Dr. Arrow's director options expire on February 28, 2015.
- (5) As a result of his resignation on May 1, 2014, Mr. Stevens' options expire on July 30, 2014.

Table of Contents**Option Exercises and Stock Vested in 2013**

The following table summarizes the option exercises by each of our named executive officers for the year ended December 31, 2013. No shares of restricted stock have been granted to any of the named executive officers.

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise \$(1)
Federico Pignatelli Former Chief Executive Officer & Former Chairman of the Board	N/A	N/A
Alexander K. Arrow, M.D. President & Chief Operating Officer	N/A	N/A
Frederick D. Furry Chief Financial Officer	N/A	N/A
Dmitri Boutoussov Vice President of Engineering & Chief Technology Officer	35,000	\$ 128,951
Michael Stevens Former Director of Professional Relations & Territory Sales Manager	5,000	\$ 15,402
	500	\$ 2,090
	18,561	\$ 55,725

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

Potential Payments upon Termination or Change in Control

Mr. Pignatelli. Mr. Pignatelli was not a party to any severance or change in control agreement during 2013 and was not a party to such an agreement up to his resignation on June 12, 2014.

Dr. Arrow. Dr. Arrow was not a party to any severance agreement during 2013 and is not a party to such an agreement currently. Dr. Arrow's June 2013 stock options immediately vest and are exercisable upon a qualifying termination of employment following a change in control. The value realizable as a result of the vesting of these options assuming a change in control totaled \$0 as of December 31, 2013.

Mr. Furry. Mr. Furry was not a party to any severance or change in control agreement during 2013 and is not a party to such an agreement currently.

Mr. Boutoussov. Mr. Boutoussov was not a party to any severance agreement during 2013 and is not a party to such an agreement currently. Mr. Boutoussov is a party to a change in control agreement with us that provides for one year of salary and certain medical and dental benefits in the event of a qualifying termination of employment following a change in control of the Company which totaled approximately \$273,000 at December 31, 2013.

Mr. Stevens. Mr. Stevens was not a party to any severance agreement during 2013 and was not a party to such an agreement up to his resignation on May 1, 2014. Until his resignation on May 1, 2014, Mr. Stevens was a party to a change in control agreement with us that provided for one year of salary and certain medical and dental benefits in the event of a qualifying termination of employment following a change in control of the Company which totaled approximately \$117,000 at December 31, 2013.

Table of Contents**EQUITY COMPENSATION PLAN INFORMATION**

Our 2002 Stock Incentive Plan is designed to attract and retain the services of individuals essential to the Company's long-term growth and success. We also formerly maintained the 1990 Stock Option Plan and the 1993 Stock Option Plan. The 1990 Stock Option Plan and the 1993 Stock Option Plan have terminated pursuant to their terms and no grants under those plans remain outstanding.

The following table summarizes information as of December 31, 2013 with respect to the shares of our common stock that may be issued upon exercise of options, warrants or rights under our existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Stockholders	4,441,134	\$ 3.51	468,013
Total	4,441,134	\$ 3.51	468,013

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

On the basis of filings with the SEC and other information, we believe that based on 43,886,535 shares of our common stock being issued and outstanding as of July 22, 2014, the following persons, including groups of persons, beneficially owned more than five percent (5%) of our outstanding common stock:

Name and Address	Amount and Nature of Beneficial Ownership	Percentage of Class
Larry N. Feinberg(1) 200 Greenwich Avenue Greenwich, Connecticut 06830	8,406,746	19.16%
Camber Capital Management LLC(2) 101 Huntington Avenue Boston, Massachusetts 02199	2,701,612	6.16%

- (1) Based on the information provided in Amendment No. 8 to Schedule 13D filed with the SEC on July 23, 2014 by Oracle Partners with respect to itself, Oracle Institutional Partners, L.P. (*Institutional Partners*), Oracle Ten Fund Master, L.P. (*Ten Fund*), Oracle Associates, LLC (*Oracle Associates*), Oracle Investment Management, Inc. (*Oracle Investment*) and Larry N. Feinberg (Mr. Feinberg, together with Oracle Partners, Institutional Partners, Ten Fund, Oracle Associates and Oracle Investment, the *Reporting Persons*). The Reporting Persons reported that Oracle Partners beneficially owns and has shared voting and dispositive power with respect to 5,857,251 shares of our common stock, Institutional Partners beneficially owns and has shared voting and dispositive power with respect to 862,945 shares of our common stock, each of Ten Fund and Oracle Investment beneficially owns and has shared voting and dispositive power with respect to 1,686,550 shares of our common stock, Oracle Associates beneficially owns and has shared voting and dispositive power with respect to 6,720,196 shares of our common stock and Larry N. Feinberg beneficially owns and has shared voting and dispositive power with respect to 8,406,746 shares of our common stock.
- (2) Based on the information provided in Amendment No. 1 to Schedule 13G filed with the SEC on February 3, 2014 by Camber Capital Management LLC (*Camber*). Camber reported that it and Stephen DuBois each beneficially owns and has shared voting and dispositive power with respect to 2,701,612 shares of our common stock.

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The following table sets forth the beneficial ownership of shares of our common stock as of July 22, 2014 by (i) each stockholder known to us to beneficially own more than five percent of our outstanding common stock, (ii) each current director, (iii) each of the Board Nominees, the Other Nominee and Oracle's Nominee, (iv) each named executive officer, and (v) all current directors and executive officers as a group. Except as indicated in the footnotes to this table, the persons or entities named in the table have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them, subject to community property laws, where applicable. Percentage ownership is based on 43,886,535 shares of our common stock outstanding at July 22, 2014. Shares underlying options exercisable within 60 days of July 22, 2014 are deemed outstanding for the purpose of computing the percentage ownership of the person or persons holding such options, but are not deemed outstanding for computing the percentage ownership of any other persons.

Name	Owned Shares of Common Stock	Number of Shares Underlying Options Exercisable		Percentage of Class
		Within 60 Days of July 22, 2014		
Paul N. Clark(3)(5)	605,954	5,938		1.39%
Frederic H. Moll(3)	0	57,250		*
Norman J. Nemoy(3)	10,777	153,500		*
Jeffrey M. Nugent(3)(4)	63,656(6)	52,642		*
Federico Pignatelli(3)(4)	1,491,709	210,000		3.86%
James R. Talevich(3)	0	20,625		*
Alexander K. Arrow(4)	115,602	146,375		*
Frederick D. Furry(4)	18,201	205,278		*
Dmitri Boutoussov(4)	0	271,611		*
Michael Stevens(4)	0	37,189		*
All current directors and named executive officers as a group (10 persons)	2,305,899	1,160,408		7.69%
Jonathan T. Lord(7)	0	0		*

* Represents less than 1%.

(3) Director.

(4) Named executive officer.

(5) Includes 605,954 shares of our common stock beneficially owned by the Paul and Carolyn Clark Revocable Trust of 2009.

(6) Includes 6,313 restricted stock units (*RSUs*) that vested on July 13, 2014, 2,630 RSUs that vest on August 13, 2014 and 2,630 RSUs that vest on September 13, 2014.

(7) Based on information provided in Oracle Partners' notice of its intention to nominate Dr. Lord.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The charter of the Audit Committee requires that it review any insider or related party transactions. In connection with this requirement, our policy for the review of related party transactions (transactions with the Company or any of its subsidiaries involving our directors, executive officers or holders of more than five percent of our outstanding common stock or any member of the immediate family of the foregoing) is reviewed by our Audit Committee and our Board of Directors at least annually. Under our policy, any related party transactions require prior approval by the Audit Committee or by a majority of the disinterested members of our Board. In addition, transactions involving our directors are disclosed and reviewed by the Nominating and Corporate Governance Committee in its assessment of our directors' independence requirements. To the extent any related party transactions are ongoing business relationships, the transactions are reviewed annually by the Audit Committee. Related party transactions must be on terms no less favorable to the Company than those that it believes could be obtained from unaffiliated third parties.

Except as described below, since January 1, 2013, there has not been, and there is not currently proposed, any transaction or series of related transactions in which we were or are to be a participant or are currently a participant involving an amount in excess of \$120,000 and in which (a) any director, nominee for director, executive officer or stockholder known to the Company to be the beneficial owner of more than five percent of our outstanding common stock or (b) any member of the immediate family of any person identified in clause (a), had or will have a direct or indirect material interest.

December Private Placement

On December 19, 2013, the Company entered into a Subscription Agreement with Ten Fund, pursuant to which the Company sold 340,000 unregistered shares of our common stock to Ten Fund for \$612,000. The price of \$1.80 per share of common stock was equal to the closing price per share of our common stock on NASDAQ on December 16, 2013. Ten Fund is an affiliate of Oracle Partners.

February Private Placement

On February 10, 2014, the Company entered into a Subscription Agreement with Ten Fund, Institutional Partners and Oracle Partners pursuant to which the Company sold 320,000 unregistered shares of our common stock to Ten Fund for \$822,400; 280,000 unregistered shares of our common stock to Institutional Partners for \$719,600; and 1,345,525 unregistered shares of our common stock to Oracle Partners. The price of \$2.57 per share of common stock was equal to the closing price per share of our common stock on NASDAQ on February 7, 2014. Ten Fund, Institutional Partners and Oracle Partners are affiliates of Larry N. Feinberg, a holder of more than five percent of our outstanding common stock, and Mr. Feinberg beneficially owns and has shared voting and dispositive power with respect to shares of our common stock beneficially owned by Ten Fund, Institutional Partners and Oracle Partners.

July Private Placement

The Company entered into a Securities Purchase Agreement, dated July 18, 2014, with Ten Fund, Institutional Partners, Oracle Partners and certain other investors, including the Paul and Carolyn Clark Revocable Trust, Alexander K. Arrow, Frederick D. Furry and Jeffrey M. Nugent, pursuant to which, on July 22, 2014, the Company sold an aggregate of 6,250,000 unregistered shares of our common stock for an aggregate purchase price of \$12,000,000. The Company sold 7,812 shares to Alexander K. Arrow for \$14,999.04; 13,020 shares to Frederick D. Furry for \$24,998.40; 52,083 shares to Jeffrey M. Nugent for \$99,999.36; 520,833 shares to the Paul and Carolyn Clark Revocable Trust for \$999,999.36; 260,756 shares to Institutional Partners for \$500,651.52; 369,044 shares to Ten Fund for \$708,564.48; and 1,641,036 shares to Oracle Partners for \$3,150,789.12. The price of \$1.92 per share of common stock was equal to the closing price per share of our common stock on NASDAQ on July 18, 2014.

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Paul N. Clark, our Chairman of the Board, is the trustee of, and his daughters are beneficiaries of, the Paul and Carolyn Clark Revocable Trust. Mr. Nugent is our Acting Chief Executive Officer and one of our directors. Dr. Arrow is our President and Chief Operating Officer, and Mr. Furry is our Chief Financial Officer. See above under February Private Placement for a description of the relationship between Ten Fund, Institutional Partners and Oracle Partners and Larry N. Feinberg, a holder of more than five percent of our outstanding common stock.

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AUDIT COMMITTEE REPORT

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

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed our financial statements as of and for the fiscal year ended December 31, 2013 with management and BDO USA, LLP, our independent registered public accounting firm. The Audit Committee also discussed with BDO USA, LLP the matters required to be discussed by Statement on Auditing Standards No. 61, *Communications with Audit Committees*, as amended. This included a discussion of the independent registered public accounting firm's judgments as to the quality, not just the acceptability, of our accounting principles and such other matters that generally accepted auditing standards require to be discussed with the Audit Committee. The Audit Committee also received the written disclosures and the letter from BDO USA, LLP required by Public Company Accounting Oversight Board Rule 3526, Independence Discussion with Audit Committees, as amended, and the Audit Committee discussed the independence of BDO USA, LLP with that firm.

Based on the Audit Committee's review and discussions noted above, the Audit Committee recommended to our Board, and our Board approved, that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for filing with the SEC. The Audit Committee also appointed BDO USA, LLP as our independent registered public accounting firm for 2014, subject to stockholder ratification.

Submitted by the Audit Committee of our Board:

James R. Talevich, Chairman

Frederic H. Moll

Norman J. Nemoy

Date: July 15, 2014

Table of Contents**PROPOSAL TWO****RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has appointed BDO USA, LLP as our independent registered public accounting firm for 2014, subject to stockholder ratification. Our Board is asking the stockholders to ratify the appointment by the Audit Committee of BDO USA, LLP as the independent public accounting firm to conduct the audit of our financial statements for the fiscal year ending December 31, 2014. Stockholder ratification of such selection is not required by our bylaws or other applicable legal requirement. However, our Board is submitting the selection of BDO USA, LLP to our stockholders for ratification as a matter of good corporate governance.

In the event our stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to continue to retain BDO USA, LLP for the 2014 fiscal year. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee believes that such a change should be made.

A representative of BDO USA, LLP is expected to be present at our annual meeting, will have the opportunity to make a statement if he or she desires to do so and is expected to be available to respond to appropriate questions.

Principal Accountant Fees and Services

The following table presents fees billed and billable to us for professional services rendered by BDO USA, LLP for the fiscal years ended December 31, 2013 and 2012.

	Fiscal Year Ended December 31, 2013	Fiscal Year Ended December 31, 2012
Audit Fees(1)	\$ 263,457	\$ 272,494
Audit-Related Fees	0	0
Tax Fees	0	0
All Other Fees(2)	31,646	1,553
Total	\$ 295,103	\$ 274,047

(1) 2013 and 2012 audit fees include services performed in connection with the audit of the Company's internal control over financial reporting as of December 31, 2013, and 2012, respectively.

(2) Fees paid in conjunction with services performed on our registration statement on Form S-3 and related Prospectus Supplement filings with the SEC.

Determination of Independence

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

Pre-Approval Policy

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

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

All fees paid to BDO USA, LLP in 2012 and 2013 were pursuant to engagements pre-approved by the Audit Committee, and none of those engagements made use of the exception to pre-approval contained in Regulation S-X, Rule 2-01(c)(7)(i)(C).

Recommendation of Our Board

OUR BOARD UNANIMOUSLY RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF BDO USA, LLP TO SERVE AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2014.

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PROPOSAL THREE

AMENDMENT TO OUR RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF OUR COMMON STOCK

Our Board has approved, and is hereby soliciting stockholder approval of, an amendment to our Restated Certificate of Incorporation to increase the number of authorized shares of our common stock from fifty million (50,000,000) shares to one hundred million (100,000,000) shares (the *Charter Amendment*). The Charter Amendment does not contemplate any change to the number of authorized shares of our preferred stock. As approved by our Board, subject to stockholder approval, Article III of our Restated Certificate of Incorporation would be amended to read as follows:

THIRD. The total number of shares of stock which the Corporation shall have authority to issue is ONE HUNDRED ONE MILLION (101,000,000) shares of which stock ONE HUNDRED MILLION (100,000,000) shares of \$.001 par value shall be common stock and of which ONE MILLION (1,000,000) shares of \$.001 par value shall be preferred stock.

Reasons for Proposal

We currently have 50,000,000 shares of common stock authorized for issuance. As of July 22, 2014, we had 43,886,535 shares of our common stock issued and outstanding, 4,783,488 shares of our common stock were reserved for future issuance pursuant to the 2002 Stock Incentive Plan (including shares of our common stock reserved for issuance pursuant to outstanding awards and shares of our common stock reserved for issuance pursuant to future awards), 210,161 shares of our common stock were reserved for issuance pursuant to outstanding options and restricted stock units granted outside the 2002 Stock Incentive Plan and 987,974 shares of our common stock were reserved for issuance pursuant to outstanding warrants. Accordingly, as of July 22, 2014, only approximately 131,842 shares of our common stock remained authorized, unissued and available for general corporate purposes. As of July 22, 2014, no shares of our preferred stock had been issued.

Our Board believes that it is important to have available for issuance a number of authorized shares of our common stock sufficient to meet our future corporate needs. We plan to use a portion of the additional authorized shares of our common stock for the purpose of issuing shares under the Stock Incentive Plan, if the amendment to the Stock Incentive Plan is approved by our stockholders pursuant to Proposal Four. In addition, we are evaluating the future financing needs of our business, and we may use a portion of the additional authorized shares if we elect to raise capital by issuing shares of our common stock. Other than these purposes, we do not have any current intentions to issue additional authorized shares of our common stock. Our Board believes that the availability of additional authorized shares of our common stock will provide us with the flexibility in the future to issue shares of our common stock for corporate purposes, and the additional authorized shares may, from time to time, be used for purposes of raising additional capital (including through sales of stock or securities convertible into or exercisable for shares of our common stock), settling outstanding obligations and acquiring companies or assets. We believe that the proposed increase in the number of authorized shares of our common stock will provide us with additional flexibility to meet business and financing needs as they arise.

Our Board will determine whether, when and on what terms the issuance of shares of our common stock may be warranted in connection with any future actions. No further action or authorization by our stockholders will be necessary before issuance of additional shares of common stock authorized under our Restated Certificate of Incorporation, as amended by the Charter Amendment, except as may be required for a particular transaction by applicable law or regulatory agencies or by the NASDAQ Rules or the rules of any other stock market or exchange on which our common stock may then be listed.

The additional shares of our common stock, if issued, would have the same rights and privileges as the existing shares of our common stock. Any issuance of additional shares of our common stock would increase the number of outstanding shares of our common stock, and (unless such issuance was *pro rata* among existing stockholders) our existing stockholders' percentage ownership of our common stock would be diluted accordingly.

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Although an increase in the number of authorized shares of our common stock could, under certain circumstances, also be construed as having an anti-takeover effect (for example, by permitting easier dilution of the stock ownership of a person seeking to effect a change in the composition of our Board or contemplating a tender offer or other transaction resulting in our acquisition by another company), the proposed increase in shares authorized is not in response to any effort by any person or group to obtain control of us by any means. In addition, the proposal is not part of any plan by our Board to recommend or implement a series of anti-takeover measures.

The proposed increase in the number of authorized shares of our common stock would become effective immediately upon the filing of the Charter Amendment with the Secretary of State of the State of Delaware. We expect to file the Charter Amendment referenced in this Proposal Three with the Secretary of State of the State of Delaware promptly upon approval of this Proposal Three by our stockholders.

Recommendation of Our Board

OUR BOARD RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR THE PROPOSAL TO AMEND OUR RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF OUR COMMON STOCK FROM FIFTY MILLION (50,000,000) SHARES TO ONE HUNDRED MILLION (100,000,000) SHARES.

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PROPOSAL FOUR
AMENDMENT TO THE
BIOLASE, INC. 2002 STOCK INCENTIVE PLAN

General

We are asking our stockholders to approve an amendment to our 2002 Stock Incentive Plan (as amended effective as of May 26, 2004, November 15, 2005, May 16, 2007, May 5, 2011 and June 6, 2013, the Stock Incentive Plan), which amendment was approved by our Board on July 14, 2014, subject to stockholder approval. The effect of the amendment is to increase the number of shares of our common stock available for issuance under the Stock Incentive Plan by an additional 1,500,000 shares. The amendment would not modify the Stock Incentive Plan except to increase the number of shares of our common stock reserved for issuance under the Stock Incentive Plan. The full text of the Stock Incentive Plan, as proposed to be amended, is attached to this proxy statement as [Appendix B](#).

As of July 22, 2014, 936,165 shares of our common stock were available for issuance under the Stock Incentive Plan. The number of shares of our common stock is being increased with the amendment in order to provide for awards in future years. We intend to award grants to directors, officers, and employees to provide incentives to such individuals to focus on our critical long-range objectives and to encourage the attraction and retention of such individuals.

The principal features of the Stock Incentive Plan are summarized below; however the summary is qualified in its entirety by reference to the Stock Incentive Plan itself, which is attached to this proxy statement as [Appendix B](#). We encourage you to read the Stock Incentive Plan carefully.

The approval of this Proposal Four is conditioned upon the approval of Proposal Three regarding the Charter Amendment. Therefore, if Proposal Three is not approved, this Proposal Four will not be effective even if otherwise approved by our stockholders.

Background of the Stock Incentive Plan

The Stock Incentive Plan was approved by our stockholders on May 23, 2002. The Stock Incentive Plan originally reserved 1,000,000 shares of our common stock for issuance as stock awards or upon exercise of options granted pursuant to the Stock Incentive Plan plus the number of shares that remained available as of such date under the predecessor 1998 Stock Option Plan. The Stock Incentive Plan was amended in 2004 to increase the shares reserved by an additional 1,000,000 shares. In 2005, the Stock Incentive Plan was amended to increase the shares reserved by an additional 950,000 shares. In May 2007, the Stock Incentive Plan was amended to increase the shares reserved by an additional 1,000,000 shares. In May 2011, the Stock Incentive Plan was amended to increase the shares reserved by an additional 1,000,000 shares. In June 2013, the Stock Incentive Plan was amended to increase the shares reserved by an additional 800,000 shares. Following the June 2013 amendment, the total number of shares of our common stock reserved for issuance under the Stock Incentive Plan was 7,750,000.

The Stock Incentive Plan is designed to serve as a comprehensive equity incentive program to attract and retain the services of individuals essential to our long-term growth and financial success. Accordingly, our officers and other employees, our non-employee directors and independent contractors have the opportunity to acquire a meaningful equity interest in us through their participation in the Stock Incentive Plan. As of July 22, 2014, approximately 191 officers and employees, five non-employee directors, and six independent contractors were eligible to participate in the Stock Incentive Plan. Our burn rate of shares utilized under the Stock Incentive Plan has averaged approximately 6.3% over the past three years.

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Shares Subject to the Stock Incentive Plan

As of July 22, 2014, 3,847,323 shares of our common stock were subject to outstanding options and 936,165 shares remained available for issuance under the Stock Incentive Plan. If this proposal is approved, then an additional 1,500,000 shares would be available for issuance under the Stock Incentive Plan. All outstanding options were issued at the closing sale price of our common stock on the date of grant or higher. Options generally expire following termination of the optionee's service between 90 days and 12 months following termination of service and have an exercise term not to exceed 10 years from the date of grant. The market value of the securities underlying the outstanding options as of July 29, 2014 was \$2.35 per share of our common stock. If this proposal is approved and all available shares for issuance under the Stock Plan were in fact issued, such shares would constitute approximately 13.8% of our common stock outstanding as of July 22, 2014. We plan to file a Registration Statement on Form S-8 to register the additional 1,500,000 shares being reserved under the Stock Incentive Plan.

Description of the Stock Incentive Plan

The Stock Incentive Plan consists of three equity incentive programs: (1) the discretionary option grant program, (2) the stock issuance program, and (3) the automatic option grant program for our non-employee directors. The principal features of each program are described below.

Both our Board and the Compensation Committee have the authority to act as the Stock Incentive Plan administrator of the discretionary option grant and stock issuance programs with respect to option grants and stock issuances made to our executive officers and directors and also have the authority to make option grants and stock issuances under those programs to all other eligible individuals. Our Board may at any time appoint a secondary committee comprised of one or more directors to have concurrent authority to make option grants and stock issuances under those two programs to individuals other than executive officers and non-employee directors. All grants under the Stock Incentive Plan will be made in strict compliance with the express provisions of the applicable program. Options granted under the Stock Incentive Plan may be incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the Code), or non-qualified options. The Stock Incentive Plan prohibits the re-pricing of outstanding stock options or the exchange of outstanding stock options for stock options with a lower exercise price, unless stockholder approval is obtained, or if in connection with a change of control of us or a change in our common stock (such as the result of a merger, stock split, stock dividend or recapitalization of us).

Discretionary Option Grant Program

The plan administrator has complete discretion under the discretionary option grant program to determine which eligible individuals are to receive option grants, the time or times when those grants are to be made, the number of shares subject to each such grant, the status of any granted option as either an incentive stock option or a non-statutory option under the federal tax laws, the vesting schedule (if any) to be in effect for the option grant and the maximum term for which any granted option is to remain outstanding.

Each granted option must have an exercise price per share determined by the plan administrator, and such exercise price cannot be less than the fair market value of our common stock on the date of grant. No granted option can have a term in excess of ten years. In general, all shares subject to an outstanding option vest and become fully exercisable immediately prior to a change of control of us unless the option is assumed or continues in full force pursuant to the change in control transaction, replaced with a cash incentive program which preserves the economic value of the shares subject to the option that remain unexercisable or the plan administrator imposes any other limitations.

Stock Issuance Program

Shares may be issued under the stock issuance program at a price per share determined by the plan administrator, payable in cash or for past services rendered to us (or, if permitted by the plan administrator, by delivery of a promissory note). The plan administrator has complete discretion under the program to determine

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which eligible individuals are to receive such stock issuances or restricted stock unit awards, the time or times when those issuances or awards are to be made, and the number and purchase price of shares subject to each such issuance or award. The plan administrator has discretion over the vesting schedule for shares issued under the stock issuance program, provided that shares issued at less than fair market value on the date of grant will vest over a period of not less than three years, with accelerated vesting permitted only upon a change of control or in other limited circumstances (*e.g.*, death or disability of the recipient, termination without cause or pursuant to a severance agreement or plan under which the recipient provides consideration for accelerated vesting). Shares of our common stock may also be issued under the program pursuant to restricted stock unit awards that entitle the recipients to receive those shares upon the attainment of designated performance goals (subject to a minimum performance period of not less than one year) or satisfaction of specified service requirements (subject to the same general three-year vesting period described above). Up to 5% of the total number of shares reserved for issuance under the Stock Incentive Plan may be issued without regard to the foregoing restrictions. In general, the plan administrator may, in its discretion, at any time waive the surrender or cancellation of an award upon an individual's cessation of service or failure to attain any applicable performance goals, upon a change in control, proxy contest or upon any other event. In general, all unvested shares vest immediately prior to a change of control of us unless such repurchase rights are assumed or continued in full force pursuant to the change in control transaction or the plan administrator imposes any other limitations.

Automatic Option Grant Program

Effective as of the Company's 2007 annual meeting, under the automatic option grant program, eligible non-employee members of our Board have received a series of option grants over their period of service on our Board. The automatic option grant program provides that each individual who is elected to our Board as a non-employee director, at an annual meeting of stockholders or at a special meeting at which directors were elected, automatically is granted, on the date of such election and at each annual meeting of the Company's stockholders thereafter, a non-statutory option to purchase 20,000 shares of our common stock. If a non-employee director becomes a member of our Board for the first time on a date other than the date of a meeting at which all directors were elected, he or she will automatically be granted a non-statutory option to purchase the number of shares equal to the sum of (a) 20,000 and (b) the product of (i) 1,250 and (ii) one plus the number of whole calendar months that will have elapsed between the date of appointment to our Board and the anticipated date of the next annual meeting of stockholders (or special meeting of stockholders in lieu of an annual meeting). All options granted under this program vest over one year in equal quarterly increments, with the first vesting date occurring three months after the date of grant; provided that all such options immediately vest if a person ceases to serve on our Board due to death or disability. Upon any cessation of service, the optionee has a limited period of time in which to exercise his or her outstanding vested options. Except as otherwise provided in the Stock Incentive Plan, options granted under the automatic option grant program are subject to the same terms in effect for options made under the discretionary option grant program.

Table of Contents**Historical Grants under the Stock Incentive Plan**

The following table sets forth the number of options and shares granted over the lifetime of the Stock Incentive Plan to the individuals and groups as indicated as of July 22, 2014:

Name and Position	Stock Options	Shares of Common Stock
Federico Pignatelli Former Chief Executive Officer & Former Chairman of the Board	775,000	0
Alexander K. Arrow, M.D. President & Chief Operating Officer	488,500	0
Frederick D. Furry Chief Financial Officer	247,500	0
Dmitri Boutoussov Vice President of Engineering & Chief Technology Officer	378,000	0
Michael Stevens Former Director of Professional Relations & Territory Sales Manager	66,750	0
All current executive officers (3 persons)	736,000	0
All current directors who are not executive officers	1,037,000	0
All employees (other than current executive officers) (approximately 138 persons)	2,801,650	0

Restrictions on Cancellation, Regrants and Repricing

Except with the approval of our stockholders, (i) no option may be granted in exchange for or in connection with the cancellation or surrender of an outstanding option with a higher exercise price and (ii) no option may be amended to reduce the exercise price thereof other than in connection with a change in control or adjustment made in connection with a change in our common stock without receipt of consideration by the Company (such as the result of a merger, stock split, stock dividend or recapitalization of us).

Amendment and Termination of the Stock Incentive Plan

Our Board may amend or modify the Stock Incentive Plan at any time, subject to any required stockholder approval to increase the number of reserved shares under applicable laws and regulations, including Code Section 422, Exchange Act Rule 16b-3 and the NASDAQ Rules. In addition, stockholder approval is required to modify the eligibility requirements for participation in the Stock Incentive Plan. Our Board may not amend the Stock Incentive Plan without the consent of an optionee or participant if such amendment adversely affects the rights and obligations of such optionee or participant with respect to options or unvested stock issuances at the time outstanding under the Stock Incentive Plan.

Certain Federal Income Tax Consequences

No taxable income is recognized by the optionee at the time of the grant of an incentive stock option, and no taxable income is recognized for regular tax purposes at the time the option is exercised. However, the excess of the fair market value of our common stock received over the option price is an item of adjustment for alternative minimum tax purposes. The optionee will recognize taxable income in the year in which the purchased shares are sold or otherwise made the subject of a taxable disposition. For federal income tax purposes, dispositions are divided into two categories: qualifying and disqualifying. A qualifying disposition occurs if the sale or other disposition is made more than two years after the date the option for the shares involved in such sale or disposition is granted and more than one year after the date the shares are transferred upon exercise. If the sale or disposition occurs before these two periods are satisfied, then a disqualifying disposition will result.

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Upon a qualifying disposition, the optionee will recognize long-term capital gain in an amount equal to the excess of the amount realized upon the sale or other disposition of the purchased shares over the exercise price paid for the shares. If there is a disqualifying disposition of the shares, then the excess of the fair market value of those shares on the exercise date (or amount realized upon disposition, if lower) over the exercise price paid for the shares will be taxable as ordinary income to the optionee. Any additional gain or loss recognized upon the disposition will be recognized as a capital gain or loss by the optionee.

We will not be entitled to any income tax deduction if the optionee makes a qualifying disposition of the shares. If the optionee makes a disqualifying disposition of the purchased shares, then we will be entitled to an income tax deduction, for the taxable year in which such disposition occurs, equal to the ordinary income recognized by the optionee.

All other options granted under the Stock Incentive Plan will be non-statutory stock options and will not qualify for any special tax benefits to the optionee. An optionee will not recognize any taxable income at the time he or she is granted a non-statutory stock option. However, upon exercise of the non-statutory stock option, the optionee will recognize ordinary income for federal income tax purposes in an amount generally measured as the excess of the then fair market value of each share over its exercise price. Upon an optionee's resale of such shares, any difference between the sale price and the fair market value of such shares on the date of exercise will be treated as capital gain or loss and will generally qualify for long-term capital gain or loss treatment if the shares have been held for more than one year. The Code provides for reduced tax rates for long-term capital gains based on the taxpayer's income and the length of the taxpayer's holding period.

The recipient of a restricted share award will generally recognize ordinary compensation income when such shares are no longer subject to a substantial risk of forfeiture, based on the excess of the value of the shares at that time over the price, if any, paid for such shares. However, if the recipient makes a timely election under the Code to be subject to tax upon the receipt of the shares, the recipient will recognize ordinary compensation income at that time equal to the fair market value of the shares over the price paid, if any, and no further ordinary compensation income will be recognized when the shares vest.

The recipient of a restricted stock unit award will generally recognize ordinary compensation income when the shares subject to such award are transferred to the recipient in an amount equal to the excess of the value of the shares at that time over the price, if any, paid for such shares.

Except as otherwise described above with respect to incentive stock options, we generally will be entitled to a deduction when and for the same amount that the recipient recognizes ordinary income, subject to the limitations of Section 162(m) of the Code with respect to compensation paid to certain covered employees. Under Section 162(m), income tax deductions of publicly-held corporations may be limited to the extent total compensation (including base salary, annual bonus, stock option exercises and non-qualified benefits paid) for certain executive officers exceeds \$1 million in any one year. The Section 162(m) deduction limit, however, does not apply to certain performance-based compensation as provided for by the Code provided certain requirements are met. In general, stock options will satisfy the performance-based compensation exception if the awards are made by a qualifying compensation committee, the underlying plan sets the maximum number of shares that can be granted to any person within a specified period and the compensation is based solely on an increase in the stock price after the grant date (*i.e.*, the exercise price or base price is greater than or equal to the fair market value of the stock subject to the award on the grant date).

The foregoing does not purport to be a complete summary of the federal income tax considerations that may be relevant to holders of options or restricted shares, or to us. It also does not reflect provisions of the income tax laws of any municipality, state or foreign country in which an optionee may reside, nor does it reflect the tax consequences of an optionee's death.

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Recommendation of Our Board

OUR BOARD RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE 2002 STOCK INCENTIVE PLAN. The approval of this Proposal Four is conditioned upon the approval of Proposal Three regarding the Charter Amendment. Therefore, if Proposal Three is not approved, this Proposal Four will not be effective even if otherwise approved by our stockholders.

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PROPOSAL FIVE
ADVISORY VOTE ON THE COMPENSATION OF OUR
NAMED EXECUTIVE OFFICERS
(SAY-ON-PAY VOTE)

The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, requires that our stockholders have the opportunity to cast a non-binding advisory vote regarding the compensation of our named executive officers who are named in the Summary Compensation Table contained in this proxy statement, referred to as the NEOs. We have disclosed the compensation of the NEOs pursuant to rules adopted by the SEC.

We believe that the compensation policies for the NEOs are designed to attract, motivate and retain talented executive officers and are aligned with the long-term interests of our stockholders. Stockholders are urged to read the Compensation Discussion and Analysis section, beginning on page 16 of this proxy statement, which discusses in detail our 2013 compensation program and decisions made by the Compensation Committee.

Summary of Key Compensation Practices

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

Compensation Committee Stays Current on Best Practices

We regularly update our Compensation Committee and entire Board on compensation best practices and trends. The Compensation Committee meets from time to time without management present.

Say-on-Pay Vote

This advisory stockholder vote, commonly referred to as a Say-on-Pay vote, gives stockholders the opportunity to approve or not approve the compensation of the NEOs that is disclosed in this proxy statement by voting for or against the following resolution (or by abstaining with respect to the resolution):

RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the Company's named executive officers, as disclosed in this proxy statement pursuant to the compensation disclosure rules of the SEC, which disclosure includes the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure in this proxy statement.

This vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the philosophy, policies, and practices described in this proxy statement. Because your vote is

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advisory, it will not be binding on our Board, the Compensation Committee or the Company. However, our Board and Compensation Committee value the opinions of our stockholders and will take into account the outcome of the stockholder vote on this proposal at our annual meeting when considering future executive compensation arrangements.

Recommendation of Our Board

OUR BOARD UNANIMOUSLY RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR THE ADVISORY RESOLUTION RELATING TO THE COMPENSATION OF OUR NEOS AS DISCLOSED IN THIS PROXY STATEMENT.

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ADDITIONAL INFORMATION

Proxy Solicitation Costs

We will bear the entire cost of solicitation, including the preparation, assembly, printing and mailing of this proxy statement, the WHITE proxy and any additional solicitation materials we furnish to our stockholders. Copies of the Company's solicitation materials will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to such beneficial owners. Upon request, we will reimburse such persons for their costs in forwarding such solicitation materials to such beneficial owners. We have also retained MacKenzie to assist in the solicitation of proxies at an initial fee not to exceed \$30,000 plus reimbursement for reasonable out-of-pocket expenses incurred during the solicitation, of which \$15,000 has been paid to date. MacKenzie and our directors, officers and employees may solicit proxies by mail, in person or by telephone. Our directors, officers and employees will not receive any additional compensation for these solicitation activities. We agreed to indemnify MacKenzie against liabilities and expenses arising in connection with the proxy solicitation unless caused by MacKenzie's gross negligence, bad faith, willful misconduct or fraud.

If Mr. Pignatelli proceeds with a campaign against the Board's Nominees or Oracle's Nominee, we will incur substantial additional costs in connection with our solicitation of proxies. MacKenzie has advised us that it would charge us an additional fee of up to \$250,000 in the event of any such proxy contest. The expenses related to the solicitation of proxies from our stockholders are expected to total up to \$450,000, of which approximately \$50,000 has been spent to date. MacKenzie has advised us that approximately 15 to 45 of its employees will be involved in the proxy solicitation on our behalf.

Stockholder Proposals and Nominations

Pursuant to SEC regulations, in order to be included in our proxy statement and form of proxy for the 2015 annual meeting of stockholders, stockholder proposals must be received at our principal executive offices, 4 Cromwell, Irvine, California 92618, Attention: Corporate Secretary, no later than April 1, 2015, and must comply with additional requirements established by the SEC. If we change the date of our next annual meeting of stockholders by more than 30 days from the date of the previous year's annual meeting of stockholders, then the deadline is a reasonable time before we begin to print and send our proxy materials. Pursuant to our bylaws, a stockholder proposal submitted outside of the processes established in Rule 14a-8 promulgated by the SEC and stockholder nominations will be considered untimely before April 29, 2015 and untimely after May 29, 2015. However, if the date of our next annual meeting of stockholders is more than 30 days before or more than 60 days after August 27, 2015, the deadline is no later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the Company.

Annual Report

A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which includes the financial statements, but excludes Form 10-K exhibits, is being mailed concurrently with this proxy statement to all stockholders entitled to notice of and to vote at our annual meeting.

ADDITIONAL INFORMATION

STOCKHOLDERS MAY, WITHOUT CHARGE, REQUEST A COPY OF THIS PROXY STATEMENT OR THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013 BY WRITING TO: CORPORATE SECRETARY, BIOLASE, INC., 4 CROMWELL, IRVINE, CALIFORNIA 92618 OR VISITING THE COMPANY'S WEBSITE AT WWW.BIOLASE.COM.

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Other Matters

We know of no other matters that will be presented for consideration at our annual meeting. If any other matters properly come before our annual meeting upon which a vote properly may be taken, shares represented by all proxies received by us on the WHITE proxy card will be voted with respect thereto as permitted and in accordance with the judgment of the proxy holders.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Paul N. Clark
Paul N. Clark
Chairman of the Board

Date: July 29, 2014

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APPENDIX A

**INFORMATION CONCERNING PARTICIPANTS IN
THE COMPANY'S SOLICITATION OF PROXIES**

Under applicable SEC regulations, our directors and our executive officers are participants with respect to the Company's solicitation of proxies in connection with our annual meeting. Information concerning participants is provided below.

Directors and Nominees

The directors and nominees who are considered participants in the Company's solicitation are Paul N. Clark, Dr. Frederic H. Moll, Jeffrey M. Nugent, James R. Talevich, Federico Pignatelli and Dr. Jonathan T. Lord. Their principal occupations are set forth under the section above titled Proposal One Election of Directors of this Proxy Statement. The business address of each of these individuals (other than Dr. Lord) for this purpose is in care of BIOLASE, Inc., 4 Cromwell, Irvine, California 92618, Attention: Corporate Secretary. Dr. Lord's business address is 68 LaGorce Circle, Miami Beach, Florida 33141.

Executive Officers

The principal occupations of the Company's executive officers, who may be deemed to be participants in the Company's solicitation are as shown below. The principal occupation refers to such person's position with the Company, and the business address for each person is BIOLASE, Inc., 4 Cromwell, Irvine, California 92618.

Name	Position with the Company
Jeffrey M. Nugent	Acting Chief Executive Officer
Alexander K. Arrow, M.D.	President & Chief Operating Officer
Frederick D. Furry	Chief Financial Officer

Stock Ownership and Employment Agreements

The numbers of shares of Company common stock beneficially owned by each participant and by each of our executive officers who may be deemed to be a participant are as described in the section above entitled Security Ownership of Certain Beneficial Owners and Management. Except as otherwise disclosed in this proxy statement, each of those participants beneficially owns, but does not own of record, the shares listed in that table opposite such participant's name.

As described elsewhere in this proxy statement in the section entitled Employment Agreements, none of Messrs. Nugent, Arrow or Furry is party to an employment agreement with the Company. Each of the Company's directors and executive officers is party to an indemnification agreement with the Company.

Table of Contents**Information Regarding Transactions in Company Securities by Participants**

The following table sets forth purchases and sales of securities of the Company by the participants listed below since July 22, 2012.

Name	Date	Number of Shares	Transaction Type
Alexander K. Arrow, M.D.	8/13/12	100	Purchase
Alexander K. Arrow, M.D.	8/13/12	100	Purchase
Alexander K. Arrow, M.D.	8/13/12	1,400	Purchase
Alexander K. Arrow, M.D.	8/13/12	1	Purchase
Alexander K. Arrow, M.D.	8/13/12	200	Purchase
Alexander K. Arrow, M.D.	8/13/12	3,699	Purchase
Alexander K. Arrow, M.D.	8/13/12	500	Purchase
Alexander K. Arrow, M.D.	8/13/12	7,500	Purchase
Alexander K. Arrow, M.D.	8/13/12	9,000	Purchase
Alexander K. Arrow, M.D.	8/13/12	3,200	Purchase
Alexander K. Arrow, M.D.	8/13/12	6,400	Purchase
Alexander K. Arrow, M.D.	8/13/12	400	Purchase
Alexander K. Arrow, M.D.	8/13/12	1,100	Purchase
Alexander K. Arrow, M.D.	8/13/12	100	Purchase
Alexander K. Arrow, M.D.	8/13/12	100	Purchase
Alexander K. Arrow, M.D.	8/13/12	1,100	Purchase
Alexander K. Arrow, M.D.	8/13/12	400	Purchase
Alexander K. Arrow, M.D.	8/13/12	200	Purchase
Alexander K. Arrow, M.D.	8/13/12	200	Purchase
Alexander K. Arrow, M.D.	8/13/12	200	Purchase
Alexander K. Arrow, M.D.	8/13/12	100	Purchase
Alexander K. Arrow, M.D.	8/13/12	200	Purchase
Alexander K. Arrow, M.D.	8/13/12	400	Purchase
Alexander K. Arrow, M.D.	8/13/12	100	Purchase
Alexander K. Arrow, M.D.	8/13/12	200	Purchase
Alexander K. Arrow, M.D.	8/13/12	100	Purchase
Alexander K. Arrow, M.D.	8/14/12	1,800	Purchase
Alexander K. Arrow, M.D.	8/14/12	3,000	Purchase
Alexander K. Arrow, M.D.	8/14/12	723	Purchase
Alexander K. Arrow, M.D.	8/14/12	400	Purchase
Alexander K. Arrow, M.D.	8/14/12	377	Purchase
Alexander K. Arrow, M.D.	8/14/12	1,363	Purchase
Alexander K. Arrow, M.D.	8/14/12	1,100	Purchase
Alexander K. Arrow, M.D.	8/14/12	1,237	Purchase
Alexander K. Arrow, M.D.	7/22/14	7,812	Purchase
Frederick D. Furry	8/21/12	4,000	Purchase
Frederick D. Furry	8/23/12	1,000	Purchase
Frederick D. Furry	7/22/14	13,020	Purchase
Paul N. Clark	11/13/13	30,301	Purchase
Paul N. Clark	11/13/13	14,197	Purchase
Paul N. Clark	11/14/13	15,861	Purchase
Paul N. Clark	11/25/13	10,913	Purchase
Paul N. Clark	11/26/13	11,906	Purchase
Paul N. Clark	11/27/13	1,943	Purchase
Paul N. Clark	7/22/14	520,833	Purchase
Jeffrey M. Nugent	7/22/14	52,083	Purchase

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Miscellaneous Information Concerning Participants

Except as described below or elsewhere in this proxy statement, to the knowledge of the Company:

None of the participants directly or indirectly beneficially owns any securities of any subsidiary of the Company.

No participant or associate of a participant is either a party to any transaction or series of transactions since January 1, 2013, or has knowledge of any currently proposed transaction or series of transactions, (a) in which the Company or any of its subsidiaries was or is to be a party, (b) in which the amount involved exceeds \$120,000 and (c) in which any participant or associate of a participant had or will have a direct or indirect material interest.

No participant or associate of a participant has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at our annual meeting other than an interest, if any, as a stockholder of the Company or, with respect to a director nominee, as a nominee for director.

No participant or associate of a participant has any arrangement or understanding with any person with respect to any future employment by the Company or any of its affiliates or any future transactions to which the Company or any of its affiliates will or may be a party.

No participant is, or within the past year has been, a party to any contract, arrangement or understanding with any person with respect to Company securities, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits or the giving or withholding of proxies.

Dr. Lord has consented to being named as a nominee for election to our Board in any proxy statements relating to our annual meeting and to serve as a director of the Company if elected. Oracle Partners may enter into arrangements with Dr. Lord regarding various matters, including arrangements with respect to compensation, indemnification and expense reimbursement.

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APPENDIX B

BIOLASE, INC.

2002 STOCK INCENTIVE PLAN

(As proposed to be amended)

ARTICLE ONE

GENERAL PROVISIONS

I. PURPOSE OF THE PLAN

The Plan is intended to promote the interests of the Corporation by providing eligible persons who are employed by or serve the Corporation or any Parent or Subsidiary with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to remain in such service.

Capitalized terms shall have the meanings assigned to such terms in the attached Appendix.

II. STRUCTURE OF THE PLAN

A. The Plan shall be divided into three separate equity incentive programs:

1. the Discretionary Option Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock;
2. the Stock Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock directly, either through the immediate purchase of such shares or as a bonus for services rendered the Corporation (or any Parent or Subsidiary); and
3. the Automatic Option Grant Program under which eligible non-Employee directors shall automatically receive option grants at designated intervals over their period of continued Board service.

B. The provisions of Articles One and Five shall apply to all equity programs under the Plan and shall govern the interests of all persons under the Plan.

III. ADMINISTRATION OF THE PLAN

A. Administration of the Automatic Option Grant Program shall be self-executing in accordance with the terms of that program, and no Plan Administrator shall exercise any discretionary functions with respect to any option grants made under that program.

B. The Primary Committee and the Board shall have concurrent authority to administer the Discretionary Option Grant and Stock Issuance Programs with respect to Section 16 Insiders. (However, grants made to Section 16 Insiders by the entire Board will not be exempt from the million-dollar compensation deduction limitation of Code Section 162(m).) Administration of the Discretionary Option Grant and Stock Issuance Programs with respect to all other persons eligible to participate in those programs may, at the Board's discretion, be vested in the Primary Committee or a Secondary Committee, or the Board may retain the power to administer those programs with respect to all such persons; provided, that a Secondary Committee which includes any Employee is not authorized to make grants to non-Employee directors. However, any discretionary option grants or stock issuances for members of the Primary Committee should be authorized by a disinterested majority of the Board.

C. Members of the Primary Committee or any Secondary Committee shall serve for such period of time as the Board may determine and may be removed by the Board at any time. The Board may also at any time terminate the functions of any Secondary Committee and reassume all powers and authority previously delegated to such committee.

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D. Service on the Primary Committee or the Secondary Committee shall constitute service as a director, and members of each such committee shall accordingly be entitled to full indemnification and reimbursement as directors for their service on such committee. No member of the Primary Committee or the Secondary Committee shall be liable for any act or omission made in good faith with respect to the Plan or any option grants or stock issuances under the Plan.

E. Each Plan Administrator shall, within the scope of its administrative functions under the Plan, have full power and authority (subject to the provisions of the Plan) to establish such rules and procedures as it may deem appropriate for proper administration of the Discretionary Option Grant and Stock Issuance Programs and to make such determinations under, and issue such interpretations of, the provisions of those programs and any outstanding options or stock issuances thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator within the scope of its administrative functions under the Plan shall be binding on all parties who have an interest in the Discretionary Option Grant and Stock Issuance Programs under its jurisdiction or any option or stock issuance thereunder.

IV. ELIGIBILITY

A. The persons eligible to participate in the Discretionary Option Grant and Stock Issuance Programs are as follows:

1. Employees,
2. non-Employee members of the Board or the board of directors of any Parent or Subsidiary, and
3. independent contractors who provide services to the Corporation (or any Parent or Subsidiary).

B. Only non-Employee directors shall be eligible to participate in the Automatic Option Grant Program. A non-Employee director who has previously been in the employ of the Corporation (or any Parent or Subsidiary) shall not be eligible to receive an initial option grant under the Automatic Option Grant Program at the time he or she first becomes a non-Employee director, but shall be eligible to receive annual option grants under the Automatic Option Grant Program while he or she continues to serve as a non-Employee director.

V. STOCK SUBJECT TO THE PLAN

A. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Corporation on the open market. The maximum number of shares of Common Stock which may be issued over the term of the Plan shall not exceed 9,250,000 shares. Such authorized share reserve is comprised of (1) the initial share reserve for the Plan of 1,000,000 shares authorized by the Board on April 16, 2002 and approved by the stockholders on May 23, 2002, (2) the number of shares that remained available for issuance, as of May 23, 2002, under the Predecessor Plan as last approved by the Corporation's stockholders, including the shares subject to outstanding options under the Predecessor Plan, (3) an additional increase of 1,000,000 shares of Common Stock authorized by the Board on April 28, 2004 and approved by the stockholders on May 26, 2004, (4) an additional increase of 950,000 shares of Common Stock authorized by the Board on September 19, 2005 and approved by the stockholders on November 15, 2005, (5) an additional 1,000,000 shares of Common Stock authorized by the Board on February 28, 2007 and approved by the stockholders on May 16, 2007, (6) an additional 1,000,000 shares of Common Stock authorized by the Board on February 17, 2011 and approved by the stockholders on May 5, 2011, (7) an additional 800,000 shares of Common Stock authorized by the Board on March 23, 2013 and approved by the stockholders on June 6, 2013 and (8) an additional 1,500,000 shares of Common Stock authorized by the Board on July 14, 2014 and approved by the stockholders at the Company's 2014 annual meeting of stockholders.

B. No one person participating in the Plan may receive stock options and direct stock issuances for more than 1,500,000 shares of Common Stock pursuant to the Plan in the aggregate per calendar year. No more than 200,000 shares of Common Stock may be granted under Article Three hereof.

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C. Shares of Common Stock subject to outstanding options (including options transferred to this Plan from the Predecessor Plan) shall be available for subsequent issuance under the Plan to the extent (1) those options expire or terminate for any reason prior to exercise in full or (2) the options are cancelled in accordance with the cancellation/regrant provisions of the Plan. Unvested shares issued under the Plan and subsequently cancelled or repurchased by the Corporation, at a price per share not greater than the original issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent option grants or direct stock issuances under the Plan. However, should the exercise price of an option under the Plan be paid with shares of Common Stock or should shares of Common Stock otherwise issuable under the Plan be withheld by the Corporation in satisfaction of the withholding taxes incurred in connection with the exercise of an option or the vesting of a stock issuance under the Plan, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option is exercised or which vest under the stock issuance, and not by the net number of shares of Common Stock issued to the holder of such option or stock issuance.

D. If any change is made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made by the Plan Administrator to (1) the maximum number and/or class of securities issuable under the Plan, (2) the maximum number and/or class of securities for which any one person may be granted options and direct stock issuances under the Plan per calendar year, (3) the number and/or class of securities and the exercise price per share in effect under each outstanding option under the Plan (including the options transferred to this Plan from the Predecessor Plan), and (4) the number and/or class of securities for which grants are subsequently to be made under the Automatic Option Grant Program. Such adjustments to the outstanding options are to be effected in a manner that shall preclude the enlargement or dilution of rights and benefits under such options. The adjustments determined by the Plan Administrator shall be binding.

ARTICLE TWO

DISCRETIONARY OPTION GRANT PROGRAM

I. OPTION TERMS

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator. However, each such document shall comply with the terms specified below. Each document evidencing an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

A. Exercise Price.

1. The exercise price per share shall be fixed by the Plan Administrator but shall not be less than 100% of the Fair Market Value per share of Common Stock on the option grant date.
2. The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section I of Article Five and the documents evidencing the option, be payable in one or more of the forms specified below:
 - (a) cash or check made payable to the Corporation,
 - (b) shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or
 - (c) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable instructions to (a) a

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Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable income and employment taxes required to be withheld by the Corporation by reason of such exercise and (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

B. **Exercise and Term of Options.** Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option. However, no option shall have a term in excess of 10 years measured from the option grant date.

C. **Effect of Termination of Service.**

1. The following provisions shall govern the exercise of any options granted pursuant to the Discretionary Option Grant Program that are outstanding at the time of the Optionee's cessation of Service:

(a) Immediately upon the Optionee's cessation of Service, the option shall terminate with respect to the unvested shares subject to the option.

(b) Should the Optionee's Service be terminated for Misconduct or should the Optionee otherwise engage in Misconduct, then the option shall terminate immediately with respect to all shares subject to the option.

(c) Should the Optionee's Service terminate for reasons other than Misconduct, then the option shall remain exercisable during such period of time after the Optionee's Service ceases as shall be determined by the Plan Administrator and set forth in the documents evidencing the option, but no option shall be exercisable after its Expiration Date. During the applicable post-Service exercise period, the option may not be exercised in the aggregate for more than the number of vested shares for which the option is exercisable on the date of the Optionee's Service ceased. Upon the expiration of the applicable exercise period or (if earlier) upon the Expiration Date, the option shall terminate with respect to any vested shares subject to the options.

2. Among its discretionary powers, the Plan Administrator shall have complete discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding, to extend the period of time for which the option is to remain exercisable following the Optionee's cessation of Service, but in no event beyond the expiration of the option term. The Plan Administrator should consider the tax and accounting consequences before exercising such discretion.

D. **Stockholder Rights.** The holder of an option shall have no stockholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become a holder of record of the purchased shares.

E. **Repurchase Rights.** The Plan Administrator shall have the discretion to grant options that are exercisable for unvested shares of Common Stock. Should the Optionee cease Service while such shares are unvested, the Corporation shall have the right to repurchase any or all of those unvested shares at a price per share equal to the *lower* of (1) the exercise price paid per share or (2) the Fair Market Value per share of Common Stock at the time of the repurchase. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right.

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F. **Limited Transferability of Options.** During the lifetime of the Optionee, Incentive Options shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or the laws of inheritance following the Optionee's death. Non-Statutory Options shall be subject to the same restriction, except Non-Statutory Options may be assigned in whole or in part during the Optionee's lifetime to one or more members of the Optionee's family or to a trust established exclusively for one or more such family members or to the Optionee's former spouse. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

II. INCENTIVE OPTIONS

The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section II, all the provisions of Articles One, Two and Five shall be applicable to Incentive Options. Options, which are specifically designated as Non-Statutory Options when issued under the Plan, shall *not* be subject to the terms of this Section II.

A. **Eligibility.** Incentive Options may only be granted to Employees.

B. **Dollar Limitation.** The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date) for which one or more options granted to any Employee pursuant to the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one calendar year shall not exceed \$100,000. To the extent that an Optionee's options exceed that limit, they will be treated as Non-Statutory Options (but all of the other provisions of the option shall remain applicable), with the first options that were awarded to the Optionee to be treated as Incentive Options.

C. **10% Stockholder.** If any Employee to whom an Incentive Option is granted is a 10% Stockholder, then the exercise price per share shall not be less than 110% of the Fair Market Value per share of Common Stock on the option grant date, and the option term shall not exceed five years measured from the option grant date.

III. CHANGE IN CONTROL

A. In the event a Change in Control occurs, the shares of Common Stock at the time subject to each outstanding option granted pursuant to this Discretionary Option Grant Program shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Change in Control, become exercisable for all the shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully vested shares of Common Stock. However, an outstanding option shall not become vested on such an accelerated basis if and to the extent: (1) such option is to be assumed by the successor corporation (or parent thereof) or is otherwise to continue in full force pursuant to the terms of transaction or (2) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing at the time of the Change in Control on any shares for which the option is not otherwise at that time exercisable and provides for subsequent payout of that spread no later than the time the Optionee would vest in those option shares or (3) the acceleration of such option is subject to other limitations imposed by the Plan Administrator.

B. All outstanding repurchase rights under the Discretionary Option Grant Program shall automatically terminate, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, immediately prior to the occurrence of a Change in Control, except to the extent: (1) those repurchase rights are to be assigned to the successor corporation (or parent thereof) or are otherwise to continue in full force pursuant to the terms of the transaction or (2) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator.

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C. Immediately following the consummation of the Change in Control, all outstanding options granted pursuant to the Discretionary Option Grant Program shall terminate, except to the extent assumed by the successor corporation (or parent thereof) or otherwise continued in full force and effect pursuant to the terms of the transaction.

D. Each option granted pursuant to the Discretionary Option Grant Program that is assumed or otherwise continued in effect in connection with a Change in Control shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Change in Control had the option been exercised immediately prior to such Change in Control. Appropriate adjustments to reflect such Change in Control shall also be made to (1) the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same, (2) the maximum number and/or class of securities available for issuance over the remaining term of the Plan and (3) the maximum number and/or class of securities for which any one person may be granted options and direct stock issuances pursuant to the Plan per calendar year. To the extent the holders of Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control, the successor corporation may, in connection with the assumption of the outstanding options granted pursuant to the Discretionary Option Grant Program, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such transaction.

E. Among its discretionary powers, the Plan Administrator shall have the ability to structure an option (either at the time the option is granted or at any time while the option remains outstanding) so that the option shall become immediately exercisable and some or all of the shares subject to that option shall automatically become vested (and some or all of the repurchase rights of the Corporation with respect to the unvested shares subject to that option shall immediately terminate) upon the occurrence of a Change in Control, a Proxy Contest or any other specified event or the Optionee's Involuntary Termination within a designated period of time following any of these events. In addition, the Plan Administrator may provide that one or more of the Corporation's repurchase rights with respect to some or all of the shares held by the Optionee at the time of such a Change in Control, a Proxy Contest, or any other specified event or the Optionee's Involuntary Termination within a designated period of time following such an event shall immediately terminate and all of the shares shall become vested.

F. The portion of any Incentive Option accelerated in connection with a Change in Control or Proxy Contest shall remain exercisable as an Incentive Option only to the extent the \$100,000 limitation described in Section II.B. above is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the federal tax laws.

G. The outstanding options shall in no way affect the right of the Corporation to undertake any corporate action.

ARTICLE THREE

STOCK ISSUANCE PROGRAM

I. STOCK ISSUANCE TERMS

Shares of Common Stock may be issued under the Stock Issuance Program through direct and immediate issuances without any intervening option grants. Each stock issuance under this program shall be evidenced by a stock issuance agreement that complies with the terms specified below. Shares of Common Stock may also be issued under the Stock Issuance Program pursuant to awards that entitle the recipients to receive those shares upon the attainment of designated performance goals or the satisfaction of specified Service requirements.

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A. Purchase Price.

1. The purchase price per share shall be fixed by the Plan Administrator.
2. Subject to the provisions of Section I of Article Five, shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:
 - (a) cash or check made payable to the Corporation, or
 - (b) past services rendered to the Corporation (or any Parent or Subsidiary).

B. Vesting Provisions.

1. Except as otherwise provided below in Section I.B.2 of the Plan, shares of Common Stock issued under the Stock Issuance Program for a purchase price less than one hundred percent (100%) of the Fair Market Value of the shares of Common Stock on the date of the grant of the stock issuance agreement for such shares of Common Stock, shall be subject to the following vesting requirements of this Section I.B.1 of the Plan. The shares of Common Stock shall vest ratably over a period of not less than three years subject to continued employment or service with the Corporation (with the Corporation retaining the right to repurchase any of such unvested shares at the original purchase price of such shares in the event the recipient terminates employment as provided in the stock issuance agreement, except as otherwise provided in this section). The vesting of such shares of Common Stock may not be accelerated except in the event of a Change of Control of the Corporation, in the event of the death or Disability of the recipient of the shares of Common Stock, in the event of the actual or constructive termination of the employment or services of the recipient with the Corporation by the Corporation without cause (as determined by the Board) pursuant to the stock issuance agreement, an employment or services agreement, or in connection with a separation agreement or severance plan or arrangement under which the recipient of the shares of Common Stock is required to provide consideration for such acceleration of the vesting of the shares of Common Stock. Notwithstanding the foregoing, shares of Common Stock may also be issued under the Stock Issuance Program pursuant to awards that entitle the recipients to receive those shares (i) solely upon the attainment of designated performance goals provided that the minimum performance period is not less than one year, or (ii) upon the satisfaction of additional Service requirements in addition to the Service requirements in the preceding provisions of this section.
2. Shares of Common Stock issued under the Stock Issuance Program representing up to five percent (5%) of the total number of shares of Common Stock reserved for issuance under the Plan shall not be subject to the restrictions provided above in Section I.B.1 of the Plan and may, in the discretion of the Plan Administrator, be fully and immediately vested upon issuance or may vest in one or more installments over the Participant's period of Service or upon attainment of specified performance objectives. The elements of the vesting schedule applicable to any unvested shares of Common Stock issued under the Stock Issuance Program pursuant to this Section I.B.2 shall be determined by the Plan Administrator and incorporated into the stock issuance agreement. Shares of Common Stock issued pursuant to this Section I.B.2 may also be issued under the Stock Issuance Program pursuant to awards that entitle the recipients to receive those shares upon the attainment of designated performance goals or the satisfaction of specified Service requirements.
3. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to the Participant's unvested shares of Common Stock by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration shall be issued subject to such escrow arrangements as the Plan Administrator shall deem appropriate and shall be vested to the same extent the Participant's shares of Common Stock are vested.
4. The Participant shall have full stockholder rights (other than transferability) with respect to any shares of Common Stock issued to the Participant pursuant to the Stock Issuance Program, whether or not

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the Participant's interest in those shares is vested. Accordingly, the Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares. Cash dividends constitute taxable compensation to the Participant and are deductible by the Corporation (unless the Participant has made an election under Section 83(b) of the Code).

5. Should the Participant cease to remain in Service while holding one or more unvested shares of Common Stock issued under the Stock Issuance Program or should the performance objectives not be attained with respect to one or more such unvested shares of Common Stock, then those shares shall be immediately surrendered to the Corporation for cancellation, and the Participant shall have no further stockholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the Participant for consideration paid in cash or cash equivalent (including the Participant's purchase-money indebtedness), the Corporation shall repay the Participant, without interest, the *lower* of (a) the cash consideration paid for the surrendered shares or (b) the Fair Market Value of those shares at the time of cancellation and/or shall cancel the unpaid principal balance of any outstanding purchase-money note of the Participant attributable to the surrendered shares by the applicable clause (a) or (b) amount.

6. The Plan Administrator may in its discretion waive the surrender and cancellation of one or more unvested shares of Common Stock that would otherwise occur upon the cessation of the Participant's Service or the non-attainment of the performance objectives applicable to those shares. Such waiver shall result in the immediate vesting of the Participant's interest in the shares of Common Stock as to which the waiver applies. Such waiver may be effected at any time, whether before or after the Participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives.

7. Outstanding share right awards under the Stock Issuance Program shall automatically terminate, and no shares of Common Stock shall actually be issued in satisfaction of those awards, if the performance goals or Service requirements established for such awards are not attained or satisfied. The Plan Administrator, however, shall have the discretionary authority to issue shares of Common Stock under one or more outstanding share right awards as to which the designated performance goals or Service requirements have not been attained or satisfied.

II. CHANGE IN CONTROL

A. All of the Corporation's outstanding repurchase rights under the Stock Issuance Program shall terminate automatically, and all the shares of Common Stock subject to those terminated rights shall immediately vest in full, immediately prior to the occurrence of a Change in Control, except to the extent (1) those repurchase rights are to be assigned to the successor corporation (or parent thereof) or are otherwise to continue in full force and effect pursuant to the terms of the transaction or (2) such accelerated vesting is precluded by other limitations imposed in the stock issuance agreement.

B. The Plan Administrator shall have the discretionary authority to structure one or more of the Corporation's repurchase rights under the Stock Issuance Program so that those rights shall automatically terminate in whole or in part, and some or all of the shares of Common Stock subject to those terminated rights shall immediately vest, upon the occurrence of a Change in Control, a Proxy Contest or any other event, or the Participant's Involuntary Termination within a designated period of time following any of these events.

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ARTICLE FOUR

AUTOMATIC OPTION GRANT PROGRAM

I. OPTION TERMS

A. **Automatic Grants.** Option grants shall be made pursuant to the Automatic Option Grant Program in effect under this Plan as follows:

1. ***Initial Grant:*** Provided the non-Employee director has not previously been in the employ of the Corporation or any Parent or Subsidiary, each such individual who is first elected or appointed as a non-Employee director at any time on or after the Plan Effective Date shall automatically be granted, on the date of such initial election or appointment, a Non-Statutory Option. The number of shares of Common Stock subject to the option shall be equal to the sum of (a) 20,000 and (b) the product of (x) 1,250 shares and (y) (i) 1 plus (ii) the number of whole calendar months between the date of election or appointment of such non-Employee director to the Board and the anticipated date of the next Annual Stockholders Meeting or Special Meeting in lieu of an Annual Stockholders Meeting at which directors are elected.

2. ***Annual Grants:*** On the date of each Annual Stockholders Meeting or Special Meeting in lieu of an Annual Stockholders Meeting at which directors are elected, each individual who is to continue to serve as a non-Employee director following an Annual Stockholders Meeting, whether or not that individual is standing for re-election to the Board at that particular Annual Stockholders Meeting, shall automatically be granted a Non-Statutory Option to purchase 20,000 shares of Common Stock. There shall be no limit on the number of such annual option grants any one non-Employee director may receive over his or her period of Board service, and non-Employee directors who have previously been in the employ of the Corporation (or any Parent or Subsidiary) or who have otherwise received one or more option grants from the Corporation shall be eligible to receive one or more such annual option grants over their period of continued Board service.

B. **Exercise Price.** The exercise price per share for each option grant made under the Automatic Option Grant Program shall be equal to 100% of the Fair Market Value per share of Common Stock on the option grant date.

C. **Option Term.** Each option grant under the Automatic Option Grant Program shall have a term of 10 years measured from the option grant date.

D. **Exercise and Vesting of Options.**

1. Each option under the Automatic Option Grant Program shall be immediately exercisable for any or all of the option shares. However, any unvested shares purchased under the option shall be subject to repurchase by the Corporation, at the *lower* of (a) the exercise price paid per share or (b) the Fair Market Value per share of Common Stock at the time of repurchase, should the Optionee cease such Board service prior to vesting in those shares.

2. The shares subject to each initial option grant shall vest, and the Corporation's repurchase right shall lapse, in quarterly installments upon the Optionee's completion of each quarter of service as a non-Employee director measured from the option grant date.

3. The shares subject to each annual option grant shall vest, and the Corporation's repurchase right shall lapse, in four successive quarterly installments upon the Optionee's completion of the each quarter of service as a non-Employee director measured from the grant date.

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E. **Termination of Service.** The following provisions shall govern the exercise of any options granted to the Optionee pursuant to the Automatic Option Grant Program that are outstanding at the time the Optionee ceases to serve as a director:

1. The option shall be exercisable until the earlier to occur of (a) the Expiration Date or (b) the one-year anniversary of the date the Optionee's Board service terminated.
2. During the post-Service exercise period, the option may not be exercised in the aggregate for more than the number of vested shares of Common Stock for which the option is exercisable at the time of the Optionee's cessation of Board service.
3. Should the Optionee's Board service cease due to death or Permanent Disability, then all shares at the time subject to the option shall immediately vest so that such option may be exercised for any or all of those shares as fully vested shares of Common Stock.
4. Upon the expiration of the one year exercise period or (if earlier) upon the Expiration Date, the option shall terminate for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Board service for any reason other than death or Permanent Disability, terminate to the extent the option is not otherwise at that time exercisable for vested shares.

F. **Election to Decline Equity Incentive Grants.** Notwithstanding anything to the contrary set forth in the Plan, each non-Employee director may elect to decline one or more of the option grants to which he or she may otherwise be entitled under the Automatic Option Grant Program, provided that any non-Employee director who elects to decline any such option grant shall not receive any other compensation in lieu of that option grant. Such election shall be made pursuant to written notice to the Corporation in which the non-Employee director specifically declines one or more such option grants and acknowledges that such director will not receive any other compensation from the Corporation in lieu of those option grants.

II. CHANGE IN CONTROL/PROXY CONTEST

A. In the event a Change in Control occurs while the Optionee remains a director, the shares of Common Stock at the time subject to each outstanding option that was granted pursuant to this Automatic Option Grant Program shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Change in Control, become exercisable for all the shares subject to the option at that time as fully vested shares of Common Stock and may be exercised for any or all of those vested shares. Immediately following the consummation of the Change in Control, each automatic option grant shall terminate, except to the extent assumed by the successor corporation (or parent thereof) or otherwise continued in effect pursuant to the terms of the Change in Control transaction.

B. In the event a Proxy Contest occurs while the Optionee remains a director, the shares of Common Stock at the time subject to each outstanding option granted pursuant to this Automatic Option Grant Program shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Proxy Contest, become exercisable for all the option shares as fully vested shares of Common Stock and may be exercised for any or all of those vested shares. Such option shall remain exercisable until the *earliest* to occur of (1) the Expiration Date, (2) the expiration of the one-year period measured from the date of the Optionee's cessation of Board service, or (3) the termination of the option in connection with a Change in Control transaction.

C. All outstanding repurchase rights under this Automatic Option Grant Program shall automatically terminate, and the shares of Common Stock subject to those terminated rights shall vest in full, immediately prior to the occurrence of a Change in Control or a Proxy Contest that occurs while the Optionee remains a director.

D. Each option which is assumed or otherwise continued in effect in connection with a Change in Control shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Change in Control had the option been exercised immediately prior to such Change in Control. Appropriate adjustments shall also be made

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to the exercise price payable per share under each outstanding option, *provided* the aggregate exercise price payable for such securities shall remain the same. To the extent the holders of Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control, the successor corporation may, in connection with the assumption of the outstanding options granted pursuant to the Automatic Option Grant Program, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such transaction.

E. The grant of options under the Automatic Option Grant Program shall in no way affect the right of the Corporation to undertake any corporate action.

III. REMAINING TERMS

The remaining terms of each option granted under the Automatic Option Grant Program shall be the same as the terms in effect for option grants made under the Discretionary Option Grant Program.

ARTICLE FIVE

MISCELLANEOUS

I. FINANCING

The Plan Administrator may permit any Optionee or Participant to pay the option exercise price under the Discretionary Option Grant Program or the purchase price of shares issued under the Stock Issuance Program by delivering a full-recourse, interest-bearing promissory note payable in one or more installments. After considering the tax and accounting consequences, the Plan Administrator shall establish the terms of any such promissory note (including the interest rate and the terms of repayment). In no event may the maximum credit available to the Optionee or Participant exceed the sum of (A) the aggregate option exercise price or purchase price payable for the purchased shares (less the par value of such shares) plus (B) any applicable income and employment tax liability incurred by the Optionee or the Participant in connection with the option exercise or share purchase. Prior to permitting the use of promissory notes as payment under the Plan, the Plan Administrator should consider the restrictions on doing so imposed by Regulation U.

II. TAX WITHHOLDING

A. The Corporation's obligation to deliver shares of Common Stock upon the exercise of options or the issuance or vesting of such shares granted pursuant to the Plan shall be subject to the satisfaction of all applicable income and employment tax withholding requirements.

B. The Plan Administrator may, in its discretion, provide any or all holders of Non-Statutory Options or unvested shares of Common Stock issued pursuant to the Plan (other than the options granted to non-Employee directors or independent contractors) with the right to use shares of Common Stock in satisfaction of all or part of the Withholding Taxes to which such holders may become subject in connection with the exercise of their options or the vesting of their shares. Such right may be provided to any such holder in either or both of the following formats:

1. **Stock Withholding**: The election to have the Corporation withhold, from the shares of Common Stock otherwise issuable upon the exercise of such Non-Statutory Option or the vesting of such shares, a portion of those shares. So as to avoid adverse accounting treatment, the number of shares that may be withheld for this purpose may not exceed the minimum number needed to satisfy the applicable income and employment tax withholding rules.

2. **Stock Delivery**: The election to deliver to the Corporation, at the time the Non-Statutory Option is exercised or the shares vest, one or more shares of Common Stock previously acquired by such holder

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(other than in connection with the option exercise or share vesting triggering the Withholding Taxes). So as to avoid adverse accounting treatment, the number of shares that may be withheld for this purpose may not exceed the minimum number needed to satisfy the applicable income and employment tax withholding rules.

III. SHARE ESCROW/LEGENDS

Unvested shares of Common Stock may, in the Plan Administrator's discretion, be held in escrow by the Corporation until the Optionee's or the Participant's interest in such shares vests or may be issued directly to the Optionee or the Participant with restrictive legends on the certificates evidencing those unvested shares.

IV. RESTRICTIONS ON CANCELLATION AND REGRANT OF STOCK OPTIONS AND REPRICING OF STOCK OPTIONS

Except with the approval of the stockholders of the Corporation, (i) no option may be granted under the Plan to an employee, consultant or member of the Board in direct exchange for, or in direct connection with, the cancellation or surrender of an outstanding option of such person having a higher exercise price, and (ii) no option granted under the Plan may be amended to reduce the exercise price per share of the Common Stock of the Corporation subject to such option below the exercise price of the option as of the date the option is granted, except to reflect the substitution for or assumption of the option in connection with a Change in Control of the Corporation or if any change is made in the Common Stock subject to the Plan or subject to any option under the Plan without the receipt of consideration by the Corporation (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Corporation) in which case the outstanding stock options will be appropriately adjusted in the class or classes and number of securities and price per share of Common Stock subject to such outstanding stock options. In the event of the substitution for or assumption of an option in connection with a Change in Control of the Corporation or if any change is made in the Common Stock subject to the Plan or subject to any option under the Plan without the receipt of consideration by the Corporation, the Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Corporation shall not be treated as a transaction without receipt of consideration by the Corporation.)

V. EFFECTIVE DATE AND TERM OF THE PLAN

A. The Plan shall become effective on May 23, 2002. No options may be granted or stock issued under the Plan at any time before May 23, 2002.

B. The Plan shall serve as the successor to the Predecessor Plan, and no further option grants or direct stock issuances shall be made under the Predecessor Plan after May 23, 2002. All options outstanding under the Predecessor Plan on May 23, 2002 shall be transferred to the Plan at that time and shall be treated as outstanding options under the Plan.

C. Each outstanding option so transferred shall continue to be governed by the terms of the documents evidencing such option, and no provision of the Plan shall be deemed to automatically affect or otherwise modify the rights or obligations of the holders of such transferred options.

D. Notwithstanding the previous sentence, one or more provisions of the Plan, including, without limitation, the acceleration provisions of the Discretionary Option Grant Program relating to Changes in Control and Proxy Contests, may, in the Plan Administrator's discretion, be extended to one or more options incorporated from the Predecessor Plans provided that such provision or provisions do not adversely affect the Optionee's rights and obligations.

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E. Unless terminated by the Board prior to such time, the Plan shall terminate on May 23, 2019. Should the Plan terminate when any options or unvested shares are outstanding, such awards shall continue in effect in accordance with the provisions of the documents evidencing such grants or issuances.

VI. AMENDMENT OF THE PLAN

The Board shall have complete and exclusive power and authority to amend the Plan or any awards made hereunder. However, no such amendment of the Plan shall adversely affect the rights and obligations with respect to options or unvested stock issuances at the time outstanding under the Plan unless the Optionee or the Participant consents to such amendment, and, except as provided in Section IV of Article Five of the Plan relating to adjustments upon changes in Common Stock, no increase in the number of shares of Common Stock reserved for issuance under the Plan shall be effective unless approved by the stockholders of the Corporation to the extent stockholder approval is necessary to satisfy the requirements of Section 422 of the Code, Securities and Exchange Commission Rule 16b-3 or any Nasdaq or securities exchange listing requirements. In addition, stockholder approval shall be necessary to modify the eligibility requirements for participation in the Plan.

VII. USE OF PROCEEDS

Any cash proceeds received by the Corporation from the sale of shares of Common Stock under the Plan shall be used for any corporate purpose.

VIII. REGULATORY APPROVALS

A. The implementation of the Plan, the granting of any stock option under the Plan and the issuance of any shares of Common Stock (1) upon the exercise of any option or (2) under the Stock Issuance Program shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the stock options granted under it and the shares of Common Stock issued pursuant to it.

B. No shares of Common Stock or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of applicable securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable requirements of any stock exchange or the Nasdaq Stock Market on which Common Stock is then listed for trading or traded.

IX. NO EMPLOYMENT/SERVICE RIGHTS

Nothing in the Plan shall confer upon the Optionee or the Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining such person) or of the Optionee or the Participant, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause.

X. CALIFORNIA BLUE SKY PROVISIONS

If the Corporation is not exempt from California securities laws, the following provisions shall apply to any sale of Common Stock or any option grant to an individual who is eligible to receive such grants pursuant to the Plan who resides in the State of California.

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A. Option Grant Program.

1. The exercise price per share shall be fixed by the Plan Administrator in accordance with the following provisions:

(a) The exercise price per share applicable to each option shall not be less than 85% of the Fair Market Value per share of Common Stock on the date the option is granted.

(b) If the person to whom the option is granted is a 10% Stockholder, then the exercise price per share shall not be less than 110% of the Fair Market Value per share of Common Stock on the date the option is granted.

2. The Plan Administrator may not impose a vesting schedule upon any option grant or the shares of Common Stock subject to that option which is more restrictive than 20% per year vesting, with the initial vesting to occur not later than one year after the option grant date. However, such limitation shall not be applicable to any option grants made to individuals who are officers of the Corporation, non-Employee directors or independent contractors.

3. Unless the Optionee's Service is terminated for Misconduct (in which case the option shall terminate immediately), the option (to the extent it was vested and exercisable at that the time Optionee's Service ceased) must remain exercisable, following Optionee's termination of Service, for at least (a) six months if Optionee's Service terminates due to death or Permanent Disability or (b) thirty days in all other cases.

B. Stock Issuance Program.

1. The purchase price per share for shares issued under the Stock Issuance Program shall be fixed by the Plan Administrator but shall not be less than 85% of the Fair Market Value per share of Common Stock on the issue date. However, the purchase price per share of Common Stock issued to a 10% Stockholder shall not be less than 100% of such Fair Market Value.

2. The Plan Administrator may not impose a vesting schedule upon any stock issuance effected under the Stock Issuance Program which is more restrictive than 20% per year vesting, with initial vesting to occur not later than one year after the issuance date. Such limitation shall not apply to any Common Stock issuances made to the officers of the Corporation, non-Employee directors or independent contractors.

C. Repurchase Rights. To the extent specified in a stock purchase agreement or stock issuance agreement, the Corporation and/or its stockholders shall have the right to repurchase any or all of the unvested shares of Common Stock held by an Optionee or Participant when such person's Service ceases. However, except with respect to grants to officers, directors, and consultants of the Corporation, the repurchase right must satisfy the following conditions:

1. The Corporation's right to repurchase the unvested shares of Common Stock must lapse at the rate of at least 20% per year over five years from the date the option was granted under the Discretionary Option Grant Program or the shares were issued under the Stock Issuance Program.

2. The Corporation's repurchase right must be exercised within ninety days of the date that Service ceased (or the date the shares were purchased, if later).

3. The purchase price must be paid in the form of cash or cancellation of the purchase money indebtedness for the shares of Common Stock.

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APPENDIX

The following definitions shall be in effect under the Plan:

- A. **Automatic Option Grant Program** shall mean the automatic option grant program in effect under Article Four of the Plan.
- B. **Board** shall mean the Corporation's Board of Directors.
- C. **Change in Control** shall mean a change in ownership or control of the Corporation effected through any of the following transactions:
- (i) a merger, consolidation or other reorganization approved by the Corporation's stockholders, *unless* securities representing more than 50% of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly, by the persons who beneficially owned the Corporation's outstanding voting securities immediately prior to such transaction, or
 - (ii) the sale, transfer or other disposition of all or substantially all of the Corporation's assets, or
 - (iii) the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than 50% of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders.
- D. **Code** shall mean the Internal Revenue Code of 1986, as amended.
- E. **Common Stock** shall mean the Corporation's common stock.
- F. **Corporation** shall mean BIOLASE, Inc., a Delaware corporation, and any corporate successor to all or substantially all of the assets or voting stock of BIOLASE, Inc. which adopts the Plan.
- G. **Discretionary Option Grant Program** shall mean the discretionary option grant program in effect under Article Two of the Plan.
- H. **Employee** shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.
- I. **Exchange Act** shall mean the Securities Exchange Act of 1934, as amended.
- J. **Exercise Date** shall mean the date on which the option shall have been exercised in accordance with the appropriate option documentation.
- K. **Fair Market Value** per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:
- (i) If the Common Stock is at the time traded on the Nasdaq Stock Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as such price is reported by the National Association of Securities Dealers on the Nasdaq Stock Market and published in *The Wall Street Journal*. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.
 - (ii) If the Common Stock is at the time listed on any stock exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on the stock exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange and published

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in *The Wall Street Journal*. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) If the Common Stock is at the time neither listed on any stock exchange or the Nasdaq Stock Market, then the Fair Market Value shall be determined by the Plan Administrator after taking into account such factors as the Plan Administrator shall deem appropriate.

L. **Incentive Option** shall mean an option that satisfies the requirements of Code Section 422.

M. **Involuntary Termination** shall mean the termination of the Service of any individual which occurs by reason of:

(i) such individual's involuntary dismissal or discharge by the Corporation (or its Parent or Subsidiary) for reasons other than Misconduct, or

(ii) such individual's voluntary resignation following (a) a change in his or her position with the Corporation (or any Parent or Subsidiary) which materially reduces his or her duties and responsibilities, (b) a reduction in his or her base salary by more than 15%, unless the base salaries of all similarly situated individuals are reduced by the Corporation (or any Parent or Subsidiary) employing the individual or (c) a relocation of such individual's place of employment by more than fifty miles, provided and only if such change, reduction or relocation is effected by the Corporation (or any Parent or Subsidiary) without the individual's consent.

N. **Misconduct** shall mean the commission of any act of fraud, embezzlement or dishonesty by the Optionee or Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by such person adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not in any way preclude or restrict the right of the Corporation (or any Parent or Subsidiary) to discharge or dismiss any Optionee, Participant or other person in the Service of the Corporation (or any Parent or Subsidiary) for any other acts or omissions, but such other acts or omissions shall not be deemed, for purposes of the Plan, to constitute grounds for termination for Misconduct.

O. **Non-Statutory Option** shall mean an option not intended to be an Incentive Option.

P. **Optionee** shall mean any person to whom an option is granted under the Discretionary Option Grant or Automatic Option Grant Program.

Q. **Parent** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

R. **Participant** shall mean any person who is issued shares of Common Stock under the Stock Issuance Program.

S. **Permanent Disability or Permanently Disabled** shall mean the inability of the Optionee or the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or has lasted or can be expected to last for a continuous period of 12 months or more. However, solely for purposes of the Automatic Option Grant Program, Permanent Disability or Permanently Disabled shall mean the inability of the non-Employee director to perform his or her usual duties as a director by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of 12 months or more.

T. **Plan** shall mean the BIOLASE, Inc. 2002 Stock Incentive Plan, as amended.

U. **Plan Administrator** shall mean the particular entity, whether the Primary Committee, the Board or the Secondary Committee, which is authorized to administer the Discretionary Option Grant and Stock

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Issuance Programs with respect to one or more classes of eligible persons, to the extent such entity is carrying out its administrative functions under those programs with respect to the persons under its jurisdiction.

V. **Plan Effective Date** shall mean the date the Plan becomes effective and shall be coincidental with the date the Plan is approved by the Corporation's stockholders. The Plan Effective Date is May 23, 2002.

W. **Predecessor Plan** shall mean the BIOLASE, Inc. 1998 Stock Option Plan, as amended.

X. **Primary Committee** shall mean the committee comprised of one or more directors designated by the Board to administer the Discretionary Option Grant and Stock Issuance Programs with respect to Section 16 Insiders. To obtain the benefits of Rule 16b-3, there must be at least two members on the Primary Committee and all of the members must be non-employee directors as that term is defined in the Rule or the entire Board must approve the grant(s). Similarly, to be exempt from the million dollar compensation deduction limitation of Code Section 162(m), there must be at least two members on the Primary Committee and all of the members must be outside directors as that term is defined in Code Section 162(m).

Y. **Proxy Contest** shall mean a change in ownership or control of the Corporation effected through a change in the composition of the Board over a period of 36 consecutive months or less such that a majority of the directors ceases, by reason of one or more contested elections for directorship, to be comprised of individuals who either (i) have been directors continuously since the beginning of such period or (ii) have been elected or nominated for election as directors during such period by at least a majority of the directors described in clause (i) who were still in office at the time the Board approved such election or nomination.

Z. **Secondary Committee** shall mean a committee of one or more directors appointed by the Board to administer the Discretionary Option Grant and Stock Issuance Programs with respect to eligible persons other than Section 16 Insiders.

AA. **Section 16 Insider** shall mean an executive officer or director of the Corporation or the holder of more than 10% of a registered class of the Corporation's equity securities, in each case subject to the short-swing profit liabilities of Section 16 of the Exchange Act.

BB. **Service** shall mean the performance of services for the Corporation (or any Parent or Subsidiary) by a person in the capacity of an Employee, a non-Employee member of the board of directors or independent contractor, except to the extent otherwise specifically provided in the documents evidencing the option grant or stock issuance.

CC. **Stock Issuance Program** shall mean the stock issuance program in effect under Article Three of the Plan.

DD. **Subsidiary** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

EE. **10% Stockholder** shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than 10% of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

FF. **Withholding Taxes** shall mean the applicable income and employment withholding taxes to which the holder of a Non-Statutory Option or unvested shares of Common Stock under the Plan may become subject in connection with the exercise of those options or the vesting of those shares.

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