

IRIDEX CORP  
Form DEF 14A  
May 04, 2009

## SCHEDULE 14A INFORMATION

### 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 Pursuant to Rule 14a-12

#### IRIDEX CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:



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**IRIDEX CORPORATION**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on June 17, 2009**

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of IRIDEX Corporation, a Delaware corporation (the "Company"), will be held on Wednesday, June 17, 2009 at 10:00 a.m., Pacific time, at the Company's principal executive offices located at 1212 Terra Bella Avenue, Mountain View, California 94043 for the following purposes:

1. To elect five (5) directors to serve for the ensuing year or until their successors are elected and qualified (Proposal One);
  2. To ratify the appointment of Burr, Pilger & Mayer LLP as independent registered public accountants of the Company for the fiscal year ending January 2, 2010 (Proposal Two);
  3. To amend the 2008 Equity Incentive Plan and 1998 Stock Plan to permit a one-time stock option exchange program (Proposal Three);
  4. To amend the 2008 Equity Incentive Plan to increase the share reserve (Proposal Four); and
  5. To transact such other business as may properly be brought before the meeting and any adjournment(s) thereof.
- Stockholders of record at the close of business on April 22, 2009 shall be entitled to notice of and to vote at the Annual Meeting.

All stockholders are cordially invited to attend the meeting. However, to ensure your representation at the Annual Meeting, please vote as soon as possible using one of the following methods: (1) by using the Internet as instructed on the enclosed proxy card, (2) by telephone by calling the toll-free number as instructed on the enclosed proxy card or (3) by mail by completing, signing, dating and returning the enclosed paper proxy card in the postage-prepaid envelope enclosed for that purpose. Any stockholder attending the meeting may vote in person even if he, she or it has previously voted using the Internet, telephone or proxy card. If you wish to attend the meeting to vote in person and need directions, please contact Investor Relations at (650) 940-4700 or slbruce@iridex.com.

Mountain View, California  
May 4, 2009

By Order of the Board of Directors of IRIDEX Corporation,

Theodore A. Boutacoff  
*President and Chief Executive Officer*

**YOUR VOTE IS IMPORTANT**

**IN ORDER TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE VOTE BY (1) USING THE INTERNET, (2) TELEPHONE OR (3) COMPLETING AND RETURNING THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE IN THE ENCLOSED ENVELOPE.**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE  
STOCKHOLDER MEETING TO BE HELD ON JUNE 17, 2009**

**The Proxy Statement and Annual Report on Form 10-K**

are available at <http://phx.corporate-ir.net/phoenix.zhtml?c=112360&p=proxy>.

**IRIDEX CORPORATION**

**1212 Terra Bella Avenue**

**Mountain View, CA 94043**

**PROXY STATEMENT**

**FOR THE 2009 ANNUAL MEETING OF STOCKHOLDERS**

**INFORMATION CONCERNING SOLICITATION AND VOTING**

**General**

The accompanying Proxy is solicited on behalf of the Board of Directors (the "Board") of IRIDEX Corporation, a Delaware corporation (the "Company" or "IRIDEX"), for use at the Annual Meeting of Stockholders (the "Annual Meeting") to be held at the principal executive offices of the Company located at 1212 Terra Bella Avenue, Mountain View, California 94043 on Wednesday, June 17, 2009, at 10:00 a.m., Pacific time, and at any adjournment(s) thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. The Company's telephone number is (650) 940-4700.

These proxy solicitation materials and the Annual Report on Form 10-K for the fiscal year ended January 3, 2009, including financial statements, were mailed on or about May 13, 2009 to all stockholders entitled to vote at the meeting.

**Record Date and Share Ownership**

Stockholders of record at the close of business on April 22, 2009 (the "Record Date") are entitled to notice of and to vote at the meeting and at any adjournment(s) thereof. At the Record Date, 8,844,301 shares of the Company's Common Stock, par value \$0.01 per share, were issued and outstanding and held of record by approximately 64 stockholders. At the Record Date 500,000 shares of the Company's Series A Preferred Stock, par value \$0.01, were issued and outstanding and held of record by three stockholders. Each share of the Company's Series A Preferred Stock entitles the holder thereof to the number of votes equal to the aggregate number of shares of Common Stock issuable upon the conversion of such holder's shares of the Series A Preferred Stock to Common; each share of Series A Preferred Stock is convertible into two shares of Common Stock.

**Voting**

Each stockholder is entitled to one vote for each share of Common Stock and two votes for each share of Series A Preferred Stock held by such stockholder. Holders of the Company's Common Stock and Series A Preferred Stock are the only security holders of the Company entitled to vote at the Annual Meeting, and shall vote together as one class on each of the proposals presented in this Proxy Statement. The stockholders may not cumulate votes in the election of directors.

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the Annual Meeting. If you are a stockholder of record, you may vote by submitting a proxy. If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, trustee or nominee. For instructions on how to vote, please refer to the instructions below and those included on your proxy card or, for shares held beneficially in street name, the voting instructions provided to you by your broker, trustee or nominee.

**By mail** Stockholders of record of IRIDEX Common Stock or Series A Preferred Stock may submit proxies by completing, signing and dating their proxy cards and mailing them in the accompanying pre-addressed



envelopes. Proxy cards submitted by mail must be received by the time of the meeting in order for your shares to be voted. IRIDEX stockholders who hold shares beneficially in street name may vote by mail by completing, signing and dating the voting instructions provided by their brokers, trustees or nominees and mailing them in the accompanying pre-addressed envelopes.

**By Internet** Stockholders of record of IRIDEX Common Stock or Series A Preferred Stock with Internet access may submit proxies by following the "Vote by Internet" instructions on their proxy cards until 1:00 a.m., Central time, on June 17, 2009. Most IRIDEX stockholders who hold shares beneficially in street name may vote by accessing the web site specified in the voting instructions provided by their brokers, trustees or nominees. Please check the voting instructions for Internet voting availability.

**By telephone** Stockholders of record of the Company's Common Stock who live in the United States or Canada may submit proxies by following the "Vote by Telephone" instructions on their proxy cards until 1:00 a.m., Central time, on June 17, 2009. Most IRIDEX stockholders who hold shares beneficially in street name may vote by phone by calling the number specified in the voting instructions provided by their brokers, trustees or nominees. Please check the voting instructions for telephone voting availability.

#### **Revocability of Proxies**

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by (a) delivering to the Company at its principal offices to the attention of the Company's Chief Financial Officer a written notice of revocation or a duly executed proxy bearing a later date or (b) attending the meeting and voting in person.

#### **Solicitation of Proxies**

The cost of this solicitation will be borne by the Company. The Company has retained the services of The Proxy Advisory Group, LLC (the "Agent") to perform a search of brokers, bank nominees and other institutional owners and to solicit proxies. The Company estimates that it will pay the Agent a fee of \$10,000 for its services and out-of-pocket expenses. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Proxies may also be solicited by certain of the Company's directors, officers and regular employees, without additional compensation, personally or by telephone or other electronic means.

#### **Quorum; Abstentions; Broker Non-Votes**

Votes cast by a properly submitted proxy card, or voted by telephone or by using the Internet or in person at the Annual Meeting will be tabulated by the Inspector of Elections (the "Inspector"). Holders of a majority of shares entitled to vote must be present at the meeting or represented by a properly submitted proxy card, or voted by telephone or by using the Internet in order for a quorum to exist. The Inspector will also determine whether or not a quorum is present. Except with respect to the Election of Directors under Proposal One, which will be decided by a plurality vote of the votes duly cast at a duly held meeting at which a quorum is present, the affirmative vote of a majority of the votes duly cast at a duly held meeting at which a quorum is present is required under Delaware law and the Company's Bylaws for approval of all proposals presented to stockholders.

Shares that are timely voted by telephone, the Internet or a properly dated, executed and returned proxy card will be voted at the Annual Meeting in accordance with the instructions of the stockholder. If no specific instructions are given, the shares will be voted (i) FOR the election of the nominees for directors set forth herein; (ii) FOR the ratification of Burr, Pilger & Mayer LLP as the independent registered public accounting firm of the Company for the fiscal year ending January 2, 2010; (iii) FOR the amendments to the 2008 Equity Incentive Plan and 1998 Stock Plan to permit a one-time stock option exchange program; and (iv) FOR the amendment to the



2008 Equity Incentive Plan to increase the share reserve; and (v) in the proxy holder's discretion, upon such other business as may properly come before the Annual Meeting or any adjournment thereof.

Pursuant to Delaware law, the Inspector will treat shares that are voted FOR, AGAINST, WITHHELD or ABSTAIN as being present and entitled to vote for purposes of determining the presence of a quorum and as shares entitled to vote (the Votes Cast) on the subject matter at the Annual Meeting with respect to such matter. With respect to broker non-votes, although broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business, broker non-votes will not be counted for purposes of determining the number of Votes Cast with respect to the particular proposal on which the broker has expressly not voted and, accordingly, will not affect the determination as to whether the requisite majority of Votes Cast has been obtained with respect to a particular matter.

If you hold your shares through a broker, bank or other nominee and you do not instruct them how to vote, your broker, bank or other nominee may have authority to vote your shares on your behalf.

#### **Deadline for Receipt of Stockholder Proposals to be Presented at the Next Annual Meeting**

Stockholders of the Company may submit proposals on matters appropriate for stockholder action at meetings of the Company's stockholders, including nominations for the election of directors, in accordance with Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). All proposals by any stockholder to be presented at the 2010 Annual Meeting of Stockholders must be received by the Company at its principal executive offices, attention: Secretary, no later than January 13, 2010 and must otherwise be in compliance with applicable laws and regulations in order to be considered for inclusion in the proxy statement and form of proxy relating to that meeting.

In addition, the Company's Bylaws establish an advance notice procedure with regard to certain matters, including stockholder proposals not included in the Company's proxy statement, to be brought before an annual meeting of stockholders. To be properly brought before an annual meeting of stockholders outside the processes of Rule 14a-8, notice of nominations for the election of directors or other business proposals must be delivered in writing to the Secretary of the Company at the principal executive offices of the Company no less than 45 days, nor more than 120 days, prior to the date on which the Company first mailed its proxy materials for the prior year's annual meeting. However, in the event the date of the 2010 Annual Meeting of Stockholders is advanced by more than 30 days or delayed by more than 60 days (other than as a result of adjournment) after the one year anniversary of the 2009 Annual Meeting of Stockholders, notice by the stockholder to be timely must be delivered in writing not earlier than 120 days prior to 2010 Annual Meeting of Stockholders and not later than the close of business on the later of (i) the 90<sup>th</sup> day prior to such annual meeting or (ii) the 10<sup>th</sup> day after the day on which a public announcement of the date of such meeting is first made.

If a stockholder intends to submit a proposal at the Company's 2010 Annual Meeting of Stockholders which is not eligible for inclusion in the proxy statement relating to the meeting, and the stockholder fails to give the Company notice of the proposal on or prior to March 24, 2010 and in accordance with the requirements set forth in the Exchange Act, then the proxy holders will be allowed to use their discretionary authority with regard to proxies delivered in connection with the 2010 Annual Meeting of Stockholders when and if the proposal is raised at the Company's Annual Meeting in 2010.

#### **Stockholder Information**

**A copy of the Company's Annual Report on Form 10-K for the year ended January 3, 2009, including financial statements and schedules, is enclosed with these proxy solicitation materials. In compliance with Rule 14a-3 promulgated under the Exchange Act, the Company hereby undertakes to provide without charge to each person, upon written request, a copy of the Company's Annual Report on Form 10-K for the year ended January 3, 2009, not including exhibits. If a stockholder prefers a copy of the Annual**

**Report on Form 10-K for the year ended January 3, 2009 including exhibits, the stockholder will be charged a reasonable fee (which shall be limited to our reasonable expenses in furnishing such exhibits). Requests for such copies should be directed to IRIDEX Corporation, 1212 Terra Bella Avenue, Mountain View, California 94043, Attention: Investor Relations.**

**If you share an address with another stockholder, you may receive only one set of proxy materials (including our Annual Report on Form 10-K and proxy statement) unless you have previously provided contrary instructions. If you wish to receive a separate set of proxy materials, please request the additional copies by contacting us as instructed in the previous sentence, or by contacting our Investor Relations Department at (650) 940-4700. Similarly, if you share an address with another stockholder and have received multiple copies of our proxy materials, you may contact us at the address or telephone number specified above to request that only a single copy of these materials be delivered to your address in the future.**

**PROPOSAL ONE****ELECTION OF DIRECTORS****Nominees**

The Company's Bylaws currently set the number of directors at seven (7). Each of Dr. Donald L. Hammond and Mr. James L. Donovan has informed the Board that he will not seek re-election at the Annual Meeting. Accordingly, upon the recommendation of the Nominating and Governance Committee, the Board has reduced the size of the Board to five (5) members effective as of the date of the Annual Meeting and has nominated five (5) individuals to be elected at the Annual Meeting, all of whom are presently directors of the Company.

Each nominee has consented to be named as a nominee in this Proxy Statement and to continue to serve as a director if elected. Should any nominee become unable or decline to serve as a director or should additional persons be nominated at the Annual Meeting, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of as many nominees listed below as possible (or, if new nominees have been designated by the Board, in such a manner as to elect such nominees) and the specific nominees to be voted for will be determined by the proxy holders. The Company is not aware of any reason that any nominee will be unable or will decline to serve as a director. Each director elected at the Annual Meeting will serve until the next Annual Meeting of Stockholders or until such director's successor has been elected and qualified.

Pursuant to provisions of the Securities Purchase Agreement by and between the Company and BlueLine Capital Partners (BlueLine), dated August 31, 2007, BlueLine received the right to designate two individuals for appointment to the Company's Board, one of which was to be designated at BlueLine's sole discretion and one of which was to be subject to the Company's approval. Mr. William M. Moore was designated as a director at BlueLine's sole discretion, and Mr. James B. Hawkins was designated by BlueLine with the Company's approval. There are no other arrangements or understandings between any director or executive officer and any other person pursuant to which such director or officer is or was to be selected as a director or officer of the Company. There is no family relationship between any director or executive officer of the Company.

The names of, and certain information regarding, the nominees, as of April 22, 2009 are set forth below:

<b>Name of Nominee</b>	<b>Age</b>	<b>Principal Occupation</b>	<b>Director Since</b>
Theodore A. Boutacoff	61	President and Chief Executive Officer	1989
Sanford Fitch (1)(2)(3)	68	Director of the Company	2004
Garrett A. Garrettson, Ph.D. (1)(2)(4)	65	Chairman of the Board of Directors	2004
James B. Hawkins (1)(2)(5)	53	Director of the Company	2007
William M. Moore (1)(4)(5)	60	Director of the Company	2007

- (1) Board has made affirmative determination that such nominee is independent as defined under the listing standards of The Nasdaq Stock Market.
- (2) Member of the Audit Committee.
- (3) Audit committee financial expert as defined in the rules of the Securities and Exchange Commission.
- (4) Member of the Compensation Committee.
- (5) Member of the Nominating and Governance Committee.

*Theodore A. Boutacoff* currently serves as the President and Chief Executive Officer of the Company. Mr. Boutacoff co-founded the Company and served as its President and Chief Executive Officer from February 1989 to July 2005 and again from October 2007 to the present. Mr. Boutacoff also served as senior principal advisor to the Company's Chief Executive Officer from July 2005 to October 2007 and as the Chairman of the Board from July 2005 to April 2009. Mr. Boutacoff has been a member of the Company's Board of Directors since February 1989. Mr. Boutacoff received a B.S. in Civil Engineering from Stanford University.

*Sanford Fitch* has served as a director of the Company since 2004. Mr. Fitch has served as a director and Audit Committee Chairman of Masimo Corp, a public company that designs, develops, manufacturers and sells medical devices, since November 2006. Mr. Fitch also currently serves as a director of Ozone International, Inc. and Paracor Medical, Inc., both privately held technology companies. Mr. Fitch served as a director and Audit Committee Chairman of Foxhollow Technologies, Inc., a public company that designed, developed, manufactured and sold medical devices, from June 2004 until October 2007. He also served as a director and Audit Committee Chairman of Conceptus Inc., a medical device company, from December 1994 until April 2004. Mr. Fitch served as Chief Financial Officer of several start-up technology companies from 1998 until 2002. Mr. Fitch was Chief Financial Officer and Senior Vice President of Operations of Conceptus from December 1994 through October 1998 and took the company public in 1996. From December 1990 to January 1994, Mr. Fitch served as Chief Financial Officer of SanDisk Corp., a manufacturer of flash memory devices. From 1983 through 1989, Mr. Fitch was the Chief Financial Officer of Komag Inc., a manufacturer of rigid thin film media for the disk drive industry, and took the company public in 1987. Mr. Fitch holds a B.S. in Chemistry and an M.B.A. from Stanford University.

*Garrett A. Garrettson, Ph.D.* currently serves as Chairman of the Company's Board of Directors and has served as a director of the Company since 2004. Dr. Garrettson is currently President of G. Garrettson Consulting, a management consulting company. From December 2005 to January 2008 Dr. Garrettson was CEO of Fresco Technologies, a privately held digital imaging company. From 2001 until 2004, Dr. Garrettson was the President and Chief Executive Officer of ClairVoyante, a privately held company that develops and licenses proprietary intellectual property to flat panel display manufacturers. Prior to this, Dr. Garrettson was affiliated with Spectrian Corporation, a manufacturer of high power radio frequency transistors and amplifiers for wireless network equipment, where Dr. Garrettson served as President and Chief Executive Officer from 1996 to 2000 and as Chairman of the Board from 2000 to 2002. Before joining Spectrian, Dr. Garrettson served as the President and Chief Executive Officer of Censtor Corporation, a developer of contact magnetic recording head disc technology for the data storage industry, from 1993 to 1996. From 1989 to 1993, Dr. Garrettson was the Vice President of Strategic Marketing, Corporate Development and Technology at Seagate Technology, a maker of hard disc drives and storage systems. Dr. Garrettson has also served as the Vice President of the Minneapolis Data Storage Operations at Imprimis Technology and as a Laboratory Director at Hewlett Packard. Dr. Garrettson has served on boards of seven public companies and numerous private companies. He is currently a director of GSI Group and Giga-Tronics, both public companies, as well as Purdy Electronics, a private company. Dr. Garrettson has an M.S. in Engineering Physics as well as a Ph.D. in Mechanical Engineering from Stanford University.

*James B. Hawkins* has served as a director of the Company since October 2007. Mr. Hawkins joined Natus Medical Incorporated where he currently serves as President, Chief Executive Officer, and director in April 2004. Natus Medical Incorporated is a provider of healthcare products used for the screening, detection, treatment, monitoring and tracking of common medical ailments such as hearing impairment, neurological dysfunction, epilepsy, sleep disorders, and certain newborn conditions. Prior to joining Natus Medical, Mr. Hawkins was President, Chief Executive Officer, and a director of Invivo Corporation, a developer and manufacturer of multi-parameter vital sign monitoring equipment, and its predecessor from 1985 through January 2004. Mr. Hawkins also served as Secretary of Invivo from 1986 until January 2004.

*William M. Moore* has served as a director of the Company since September 2007. Mr. Moore also currently serves on the board of directors of Natus Medical Incorporated, a public company he co-founded in 1990 and for which he served as CEO until 1993. Natus Medical Incorporated is a provider of healthcare products used for the screening, detection, treatment, monitoring and tracking of common medical ailments such as hearing impairment, neurological dysfunction, epilepsy, sleep disorders, and certain newborn conditions. Mr. Moore has served as a consultant to BlueLine Partners, a private equity firm, since February 2004, and also serves on the board of directors of Urologix, Inc., a public company that develops, manufactures and markets minimally invasive medical products for the treatment of urological disorders. From March 2003 until February 2004, Mr. Moore was a general partner of Alpine Partners, a venture capital firm. Mr. Moore served as CEO of Metasensors, Inc., a medical device company, from 1998 to March 2003.

**Required Vote**

Directors will be elected by a plurality vote of the shares of the Company's Common Stock and Series A Preferred Stock present or represented and entitled to vote on this matter at the meeting. Accordingly, the five (5) candidates receiving the highest number of affirmative votes of shares represented and voted on this proposal at the meeting will be elected directors of the Company. Votes withheld from a nominee will be counted for purposes of determining the presence or absence of a quorum but, because directors are elected by a plurality vote, will have no impact once a quorum is established. See Information Concerning Solicitation and Voting Quorum; Abstentions; Broker Non-Votes above.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE NOMINEES LISTED ABOVE**

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**CORPORATE GOVERNANCE MATTERS**

**Independence of the Board of Directors**

The Board has determined that, with the exception of Mr. Boutacoff, who is the President and Chief Executive Officer of the Company, and Mr. Donovan, who is the Vice President, Corporate Business Development of the Company, all of its members are independent directors as defined in the listing standards of The Nasdaq Stock Market.

**Board Meetings and Committees**

The Board held a total of fourteen (14) meetings during the fiscal year ended January 3, 2009. No director serving during the fiscal year attended fewer than 75% of the aggregate of all meetings of the Board and the committees of the Board upon which such director served.

During fiscal 2008, the Board had two standing committees: the Audit and Corporate Governance Committee and the Compensation and Nominating Committee. On February 26, 2009, the Board reconstituted its standing committees such that the Board now has three standing committees: the Audit Committee, the Nominating and Governance Committee and the Compensation Committee.

*Fiscal 2008 Committees*

*Audit and Corporate Governance Committee.* The Audit and Corporate Governance Committee of the Board consisted of Mr. Fitch, Mr. Hawkins and Dr. Garrettson. The Audit and Corporate Governance Committee held five (5) meetings during the last fiscal year. Mr. Fitch was the chairman of the Audit and Corporate Governance Committee. From time to time, members of the Company's executive management team also attended and participated in meetings of the Audit and Corporate Governance Committee.

*Compensation and Nominating Committee.* The Compensation and Nominating Committee of the Board consisted of Mr. Moore and Drs. Hammond and Garrettson. The Compensation and Nominating Committee held six (6) meetings during the last fiscal year. Dr. Garrettson was chairman of the Compensation and Nominating Committee.

*Fiscal 2009 Committees*

*Audit Committee.* The Audit Committee of the Board consists of Mr. Fitch, Mr. Hawkins and Dr. Garrettson. Mr. Fitch is the chairman of the Audit Committee. The Board has determined that each member of the Audit Committee is independent as defined under the listing standards of The Nasdaq Stock Market and that Mr. Fitch is an audit committee financial expert as defined in rules of the Securities and Exchange Commission (the "SEC"). Among other things, the Audit Committee reviews and advises the Board regarding the Company's accounting matters and is responsible for appointing and overseeing the work of the independent public accountants, pre-approving audit and non-audit services to be provided by the independent public accountants, reviewing and evaluating the accounting principles being applied to the Company's financial reports, reviewing and making recommendations regarding the composition and mandate of Board committees, developing overall governance guidelines, and overseeing the performance and compensation of the Board. The Audit Committee has adopted a written charter approved by the Board, which was recently amended in April 2009, a copy of which is available on our website at [www.iredex.com](http://www.iredex.com).

*Compensation Committee.* The Compensation Committee of the Board consists of Mr. Moore, Dr. Garrettson and, until his departure from the Board in connection with his not standing for reelection at the Annual Meeting, Dr. Hammond. Dr. Garrettson is the chairman of the Compensation Committee. The Board has determined that each member of the Compensation Committee is independent as defined under the listing

standards of The Nasdaq Stock Market. Among other things, the Compensation Committee reviews and advises the Board regarding all forms of compensation to be provided to the officers, employees, directors and consultants of the Company. The Compensation Committee has adopted a written charter approved by the Board, which was recently amended in April 2009, a copy of which is available on our website at [www.iridex.com](http://www.iridex.com).

*Nominating and Governance Committee.* The Nominating and Governance Committee of the Board consists of Mr. Moore, Mr. Hawkins and, until his departure from the Board in connection with his not standing for reelection at the Annual Meeting, Dr. Hammond. Mr. Moore is the chairman of the Nominating and Governance Committee. The Board has determined that each member of the Nominating and Governance Committee is independent as defined under the listing standards of The Nasdaq Stock Market. Among other things, the Nominating and Governance Committee develops general criteria regarding the qualifications and selection of Board members and recommends candidates for election to the Board. It is the policy of the Nominating and Governance Committee to consider nominees for the Board submitted by the stockholders of the Company. For more information regarding the submission of nominees for the Board, see the discussion in "Corporate Governance Matters" below. The Nominating and Governance Committee has adopted a written charter approved by the Board, which was recently amended in April 2009, a copy of which is available on our website at [www.iridex.com](http://www.iridex.com).

#### **Attendance at Annual Stockholder Meetings by the Board of Directors**

The Company has adopted a formal policy regarding attendance by members of the Board at the Company's annual meeting of stockholders. The Company's policy is that it encourages, but does not require, directors to attend. All of the directors attended the Company's 2008 Annual Meeting of Stockholders.

#### **Process for Recommending Candidates for Election to the Board of Directors**

The Nominating and Governance Committee is responsible for, among other things, determining the criteria for membership to the Board and recommending candidates for election to the Board. It is the policy of the Nominating and Governance Committee to consider recommendations for candidates to the Board from stockholders. Stockholders may present proper proposals for inclusion in the Company's proxy statement and for consideration at the next annual meeting of its stockholders by timely submitting their proposals in writing to IRIDEX Corporation, Corporate Secretary, 1212 Terra Bella Avenue, Mountain View, CA 94043. In order to be included in the proxy statement for the 2010 Annual Meeting of Stockholders, stockholder proposals must be received by the Company no later than March 24, 2010, must be accompanied by the information required by the Company's Bylaws and must otherwise comply with the requirements of Rule 14a-8 of the Securities Exchange Act of 1934, as amended.

The Nominating and Governance Committee's general criteria and process for evaluating and identifying the candidates that it recommends to the full Board for selection as director nominees are as follows:

In its evaluation of director candidates, including the members of the Board eligible for re-election, the Nominating and Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and considers (1) the current size and composition of the Board and the needs of the Board and the respective committees of the Board, (2) such factors as issues of character, judgment, diversity, age, expertise, business experience, length of service, independence, other commitments, and (3) such other factors as the Nominating and Governance Committee may consider appropriate.

While the Nominating and Governance Committee has not established specific minimum qualifications for director candidates, the Nominating and Governance Committee believes that candidates and nominees must reflect a Board that is comprised of directors who (1) are predominantly independent, (2) are of high integrity, (3) have qualifications that will increase overall Board effectiveness and

(4) meet other requirements as may be required by applicable rules, such as financial literacy or financial expertise with respect to audit and corporate governance committee members.

In evaluating and identifying candidates, the Nominating and Governance Committee has the authority to retain and terminate any third-party search firm that is used to identify director candidates, and has the authority to approve the fees and retention terms of any such firm.

With regard to candidates who are properly recommended by stockholders or by other means, the Nominating and Governance Committee will review the qualifications of any such candidate, which review may, in the Nominating and Governance Committee's discretion, include interviewing references for the candidate, direct interviews with the candidate, or other actions that the Nominating and Governance Committee deems necessary or proper.

The Nominating and Governance Committee will apply these same principles when evaluating director candidates who may be elected initially by the full Board to fill vacancies or newly created directorships prior to the next annual meeting of stockholders at which directors are elected.

After such review and consideration, the Nominating and Governance Committee selects, or recommends that the Board select, the slate of director nominees, either at a meeting of the Nominating and Governance Committee at which a quorum is present or by unanimous written consent of the Nominating and Governance Committee.

Upon the recommendation of the Nominating and Governance Committee, the Board has approved a reduction in the size of the Board to five (5) members, effective as of the Annual Meeting. Consistent with past practice, the Nominating and Governance Committee and the Board will continue to monitor and assess the size and composition of the Board and will consider the appointment of additional directors from time to time as appropriate to serve the best interests of the Company and its stockholders.

#### **Contacting the Board of Directors**

Any stockholder who desires to contact our Chairman of the Board or the other members of our Board may do so electronically by sending an email to the following address: BOD@iridex.com. Alternatively, a stockholder can contact our Chairman of the Board or the other members of the Board by writing to: Board of Directors, c/o Chairman of the Board, IRIDEX Corporation, 1212 Terra Bella Avenue, Mountain View, CA 94043. Communications received electronically or in writing will be distributed to the Chairman of the Board or the other members of the Board as appropriate depending on the facts and circumstances outlined in the communication received.

#### **Code of Business Conduct and Ethics**

The Company's policy is to conduct its operations in compliance with all applicable laws and regulations and to operate its business under the fundamental principles of honesty, integrity and ethical behavior. This policy can be found in the Company's Code of Business Conduct and Ethics, which is applicable to all of our directors, officers and employees. Such Code of Business Conduct and Ethics incorporates the Code of Ethics required by Section 406 of the Sarbanes-Oxley Act of 2002 and Item 406 of Regulation S-K. The Code of Business Conduct and Ethics also complies with the listing standards of The Nasdaq Stock Market.

The Code of Business Conduct and Ethics is designed to promote honest and ethical conduct, the compliance with all applicable laws, rules and regulations and to deter wrongdoing. The Code of Business Conduct and Ethics is also aimed at ensuring that information we provide to the public (including our filings with and submissions to the SEC) is accurate, complete, fair, relevant, timely and understandable. A copy of the formally adopted Code of Business Conduct and Ethics is available on our website at [www.iridex.com](http://www.iridex.com). We intend to disclose future amendments to certain provisions of the Code of Business Conduct and Ethics, or waivers of such provisions granted to directors and executive officers, on our web site at [www.iridex.com](http://www.iridex.com) pursuant to applicable requirements of the SEC and The Nasdaq Stock Market.



**PROPOSAL TWO**

**RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC**

**ACCOUNTANTS**

**Introduction**

The Audit Committee has appointed Burr, Pilger & Mayer LLP ( *BPM* ), independent registered public accountants, to audit the financial statements of the Company for the fiscal year ending January 2, 2010, and recommends that stockholders vote for ratification of such appointment. *BPM* also served as the Company's independent registered public accountants for the fiscal year ended January 3, 2009. Representatives of *BPM* are expected to be present at the meeting with the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Although action by stockholders is not required by law, the Board has determined that it is desirable to request approval of this selection by the stockholders. Notwithstanding the approval of this selection by the stockholders, the Audit Committee, in its discretion, may direct the appointment of a new independent registered public accounting firm at any time during the year, if the Audit Committee feels that such a change would be in the best interest of the Company and its stockholders. In the event of a negative vote on ratification, the Audit Committee will reconsider its selection.

*Resignation of PricewaterhouseCoopers LLP and retention of Burr, Pilger & Mayer LLP as the Company's Principal Independent Accountants.*

On August 23, 2007, PricewaterhouseCoopers LLP ( *PWC* ) resigned as the Company's independent registered public accounting firm, and on October 2, 2007, the Audit and Governance Committee approved the appointment of *BPM* as the Company's registered independent public accounting firm. During the Company's two preceding fiscal years ended December 31, 2005 and December 30, 2006 and through October 2, 2007, neither the Company nor anyone acting on behalf of the Company consulted with *BPM* regarding either: (i) the application of accounting principles to a specified transaction, completed or proposed, or any other decision as to the accounting, auditing or financial reporting issue or (ii) any matter that was either the subject of a disagreement (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) or a reportable event (as that term is described in Item 304(a)(1)(v) of Regulation S-K).

The Audit and Governance Committee did not recommend, nor was it asked to approve *PWC*'s resignation.

*PWC*'s report regarding the Company's financial statements as of and for the fiscal year ended December 30, 2006 contained an explanatory paragraph expressing substantial doubt about the Company's ability to continue as a going concern, did not contain any adverse opinion or disclaimer of opinion, and was not further qualified or modified as to uncertainty, audit scope, or accounting principle. *PWC*'s report regarding the Company's financial statements as of and for the fiscal year ended December 31, 2005 did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principle.

During the fiscal years ended December 31, 2005 and December 30, 2006, and through August 23, 2007, there were no disagreements as described under Item 304(a)(1)(iv) of Regulation S-K with *PWC* on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

There were no reportable events (as that term is described in Item 304(a)(1)(v) of Regulation S-K) during the fiscal years ended December 31, 2005 and December 30, 2006, and through August 23, 2007 except that, as previously disclosed, during this period *PWC* advised the Company that it had certain control deficiencies which constituted a material weakness in the Company's internal control over financial reporting.

The Company authorized PWC to respond fully to the inquiries of BPM concerning the subject matter of the material weakness disclosed above.

#### **Fees Billed to the Company by the Company's Principal Independent Accountants During the Previous Two Fiscal Years**

The following table presents fees (in thousands) billed for professional audit services and other services rendered to the Company by its principal independent accountants for the fiscal years ended January 3, 2009 and December 29, 2007.

(in thousands)	Fiscal 2008	Fiscal 2007
Audit Fees (1)	\$ 250	\$ 551
Audit-Related Fees (2)		
Tax Fees (3)		
All Other Fees (4)	94	1,212
<b>Total</b>	<b>\$ 344</b>	<b>\$ 1,763</b>

- (1) Audit Fees consisted of fees for professional services rendered for the audit of the Company's annual financial statements included in the Company's Annual Reports on Form 10-K and for the review of the financial statements included in the Company's Quarterly Reports on Form 10-Q, as well as reviews of regulatory and statutory filings, adoption of FAS 123(R) and assistance with audit committee investigation. The 2007 figure can be broken down as follows: PWC billed \$315,000 of the fees and BPM billed \$236,000 of the fees.
- (2) This category consists of assurance and related services by the Company's independent auditor that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported above under Audit Fees. Neither PWC nor BPM performed any such services for the Company in fiscal years 2008 or 2007.
- (3) Tax Fees consisted of fees billed for tax compliance and sales tax consultation services. Neither PWC nor BPM performed any such services for the Company in fiscal years 2008 or 2007.
- (4) All Other Fees consisted of fees attributable to PWC's review of the Company's filings under the Exchange Act, unrelated to its audit of the Company's financial statements, and fees related to the acquisition of the Laserscope Aesthetics business and the associated carve-out audits for the years ended December 31, 2006, 2005 and 2004. The full amount of the fees billed under this category is attributable to PWC; BPM did not bill any of the fees listed in this category.

#### **Pre-Approval of Audit and Non-Audit Services**

The Audit Committee has established a policy governing the Company's use of its principal independent accountants for non-audit services. Under the policy, management may use its principal independent accountants for non-audit services that are permitted under SEC rules and regulations, provided that management obtains the Audit Committee's approval before such services are rendered.

The Audit Committee pre-approved all of the services and fees identified in the table above in accordance with its charter and applicable laws, rules and regulations.

#### **Required Vote**

If a quorum is present, the affirmative vote of a majority of the Votes Cast will be required to approve the ratification of the appointment of Burr, Pilger & Mayer LLP. See Information Concerning Solicitation and Voting Quorum; Abstentions; Broker Non-Votes.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF BURR, PILGER & MAYER LLP**

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**PROPOSAL THREE**

**AMENDMENTS TO 2008 EQUITY INCENTIVE PLAN AND 1998 STOCK PLAN TO PERMIT**

**A ONE-TIME STOCK OPTION EXCHANGE PROGRAM**

**Introduction**

On April 30, 2009, our Board determined that it is in the best interests of the Company and its stockholders to amend the 2008 Equity Incentive Plan (the Incentive Plan ) and the 1998 Stock Plan (the 1998 Plan, and together, the Plans ) to permit a one-time stock option exchange program (the exchange program ), subject to stockholder approval, so that the Company can continue to achieve its equity compensation goals. The Company has structured the exchange program to substantially approximate a value-for-value exchange, thereby minimizing costs to the Company while still promoting employee motivation and retention. If the stockholders approve the amendments to the Plans, the amended Incentive Plan and amended 1998 Plan will replace the current versions of the Incentive Plan and 1998 Plan, respectively. Otherwise, the current versions of the Plans will remain in effect. The 1998 Plan expired on February 23, 2008, and therefore no equity awards have been or will be granted under the 1998 Plan since such date.

**Changes being made to the Plans**

The amendments to the Plans permit the Company to commence a one-time stock option exchange to allow our eligible employees to surrender certain outstanding under water (meaning the exercise prices of such awards are greater than our stock price) stock options (the options eligible for the exchange are referred to herein as eligible options ) in exchange for a reduced number of new options to be granted under our Incentive Plan with an adjusted vesting schedule, adjusted term and a per share exercise price equal to the fair market value of our Common Stock on the date of grant. Our Board believes that this program will enhance long-term stockholder value by restoring meaningful retention and incentive benefits to our employee equity compensation program.

Eligible options will include all of our outstanding options with a per share exercise price equal to or greater than \$3.00 that were granted on or after January 1, 2002 but before January 1, 2009, in exchange for a reduced number of new options to be granted under our Incentive Plan as further described below under the caption Exchange ratios. However, any options that have a per share exercise price less than or equal to the closing sales price of our Common Stock as quoted by NASDAQ on the date of expiration of the exchange program will not be eligible options under the exchange program. The eligible options were granted under the Company s 1998 Plan and Incentive Plan.

If the amendments to the Plans are approved by the stockholders, we intend to offer the exchange program to all employees of the Company and its subsidiaries based in our U.S. and overseas locations who are employed by us or our subsidiaries for the duration of the exchange program (the employees eligible for the exchange are referred to herein as eligible employees ). Members of our Board and our executive officers subject to the provisions of Section 16 of the Exchange Act are not eligible to participate in the exchange program.

The exchange program will begin within 12 months of the date these amendments to the Plans are approved by stockholders. Within this timeframe, the actual start date will be determined at the discretion of our Compensation Committee. However, even if stockholders approve the proposal, the Company may later determine not to implement the exchange program. If the exchange program does not commence within 12 months of stockholder approval, the Company will consider any exchange program thereafter to be a new one, requiring new stockholder approval.

Stockholder approval of the amendments to the Plans under this Proposal Three is being sought separately from the amendment to increase the Incentive Plan s share reserve under Proposal Four. Therefore, a vote for Proposal Three to amend the Plans to permit the one-time stock option exchange will not constitute a vote for Proposal Four to increase the Incentive Plan s share reserve.

### Reasons for implementing an exchange program

Equity awards have been, and continue to be, a key part of our incentive compensation and retention programs and are designed to motivate and reward employees' efforts. We believe that to develop and market our products, we need to maintain competitive employee compensation and incentive programs.

Like many other companies in the medical device industry, our stock price has experienced significant volatility and decline over the past year due in large part to the continued weak economy and overall weakness in the capital markets. During this time we have taken a number of actions which have resulted in the Company generating positive cash flows, returned the Company to a sound financial footing and made significant strides towards returning to profitability, but our efforts have not had a significant impact on our stock price to date. Further, despite our efforts, 88% of our employees hold stock options that are under water, and as a result our equity incentive program does not provide the retention or incentive value it is intended to provide. The weighted average exercise price of options held by our non-executive employees was \$4.84 as compared to a \$1.20 closing price on April 27, 2009, for our Common Stock. At the same time, the market for key employees remains extremely competitive, notwithstanding the current economy.

When considering how best to retain and provide incentives to our eligible employees holding options that are priced above the current market price, we considered several alternatives, including increasing cash compensation and / or granting additional equity awards. Increasing cash compensation would substantially increase our compensation expense and reduce our cash flow from operations. Granting additional options or other types of equity awards at current market prices could substantially increase our overhang and cause potential dilution to our stockholders. Therefore we believe this exchange program is in the best interests of our stockholders and our employees for a number of reasons, including the following:

*Reasonable, Balanced Incentives.* As described in more detail below, under the program participating employees would surrender fully-vested or partially-vested options that are priced above the current market price of our Common Stock for a lesser number of unvested options that would have an exercise price equal to the current fair market value of the Company's Common Stock. We believe granting a lesser number of options with exercise prices that reflect a more current stock price and that vest over time is a reasonable and balanced exchange for under water options.

*Restore Retention Incentives.* We rely on skilled and educated scientific and technical employees. Competition for these employees is significant. We continue to believe that equity awards are an important component to our employees' total compensation. Replacing this component with additional cash compensation in order to remain competitive in the hiring market place may have a material adverse effect on the Company, particularly given the actions the Company has taken to return itself to a cash flow positive position. We also believe that substantially under water options do not have sufficient impact on employee motivation and retention (and in fact, may have the reverse impact), and that for our employee stock options to serve their intended purposes, they need to be exercisable at least near the current price of our Common Stock. The failure to address the under water option issue in the near to medium term may make it more difficult for us to retain our key employees. If we cannot retain these employees, our business, results of operations and future stock price could be adversely affected.

*Overhang Reduction.* Not only do the under water options have little or no retention value, they cannot be removed from our pool of awarded equity options until they are exercised, expire or otherwise terminate (for example, when an employee leaves our employment). The exchange program would reduce the number of options currently granted and utilized under the Plans because participating eligible employees would receive new options covering a lesser number of shares than the number of shares covered by the surrendered options. If all eligible options are exchanged, options to purchase approximately 663,018 shares would be surrendered and cancelled, while new options covering approximately 366,180 would be issued, resulting in a net reduction in the number of shares covered by options of approximately 296,838 or approximately 3.4% of the number of shares of our Common Stock outstanding as of April 22, 2009.

*Increase in Shares Available for Grant.* The exchange program would also make additional shares available for future grant under our Incentive Plan. These shares, together with the increase in shares being proposed under Proposal Four below, will allow the Company to have sufficient shares available for future grant to facilitate the Company's ability to execute its growth strategy which will more than likely require the Company to add additional key employees. We see the issuance of options to existing and new employees as an important component in our strategy to align the interests of our employees and stockholders.

*Reduced Pressure for Additional Grants.* If we are unable to conduct a program in which underwater stock options with low incentive value may be exchanged for a lesser number of new options, we may be compelled to grant additional equity awards to our employees at current market prices in order to provide our employees with renewed incentive value. Any such additional grants would increase our overhang as well as our compensation expense. Furthermore if the shareholders do not approve this exchange we may need to increase the option pool beyond the increased proposed in Proposal Four in order to have sufficient shares available to provide our current and future employees with appropriate equity incentives.

*Recapture Value from Compensation Expense.* Under applicable accounting rules, we are required to continue to recognize compensation expense related to these grants over their respective vesting periods, even if these grants are never exercised because they remain underwater. We believe it is not an efficient use of corporate resources to recognize compensation expense on awards that do not provide value to our employees. By replacing stock options that have little or no retention or incentive value with stock options that will provide both retention and incentive value while incurring only minimal additional compensation expense, we will be making more efficient use of our resources.

#### **Implementation and mechanics of the exchange program**

On April 30, 2009, our Board amended the Incentive Plan and 1998 Plan, subject to stockholder approval, to permit the one-time stock option exchange program. The Company has not implemented the exchange program and will not do so unless our stockholders approve this proposal. If approved by stockholders, the exchange program will begin within 12 months of the date stockholders approve the exchange program. Within this timeframe, the actual start date will be determined at the discretion of our Compensation Committee. However, even if stockholders approve the proposal, the Company may later determine not to implement the exchange program. If the exchange program does not commence within 12 months of stockholder approval, the Company will consider any exchange program thereafter to be a new one, requiring new stockholder approval.

If our stockholders do not approve the exchange program, eligible options will remain outstanding and in effect in accordance with their existing terms. We will continue to recognize compensation expense for these eligible options even though the options may have little or no retention or incentive value.

Upon the commencement of the exchange program, eligible employees holding eligible options will receive a written offer that will set forth the precise terms and timing of the exchange program. Eligible employees will be given at least 20 business days to elect to surrender their eligible options in exchange for new option awards. Promptly following the completion of the exchange program, surrendered eligible options will be cancelled and new options will be granted in exchange.

At the start of the exchange program, we will file the offer to exchange with the SEC as part of a tender offer statement on Schedule TO. Eligible employees, as well as stockholders and members of the public, will be able to obtain the offer to exchange and other documents filed by us with the SEC free of charge from the SEC's website at [www.sec.gov](http://www.sec.gov).

### **Eligible options**

Eligible options will include all of our outstanding options granted under the Plans with a per share exercise price equal to or greater than \$3.00 that were granted on or after January 1, 2002 but before January 1, 2009, in exchange for a reduced number of new options to be granted under our Incentive Plan as further described below under the caption Exchange ratios. However, any options that have a per share exercise price less than or equal to the closing sales price of our Common Stock as quoted by NASDAQ on the date of expiration of the exchange program will not be eligible under the exchange program.

Since the eligibility of options will be determined based on the closing sales price of our Common Stock as of the commencement date of the exchange program, we are unable to determine as of the date of the 2009 Annual Meeting the exact number of eligible options. However, for purposes of illustration only, if we were to commence the exchange program as of April 27, 2009, then the per-share closing sales price of our Common Stock on such date would be \$1.20. Based on the number of options held by eligible employees as of such date, 663,018 shares subject to options would be eligible for exchange under the exchange program.

### **Eligible employees**

The exchange program will be open to all employees of the Company and its subsidiaries in our U.S. and overseas locations who are employed by us or our subsidiaries at the commencement of the exchange program and remain employed with us or our subsidiaries through the date the new options are granted under the exchange program. Any employee holding eligible options who elects to participate in the exchange program but whose employment terminates for any reason prior to the grant of the new options will retain his or her eligible options subject to their existing terms and will be excluded from participation in the exchange program.

Members of our Board and our executive officers who are subject to the provisions of Section 16 of the Exchange Act will not be eligible to participate. In addition, we may exclude employees in certain non-U.S. jurisdictions from the exchange program if local law, expense, complexity, administrative burden or other compensatory considerations would make their participation illegal, infeasible or impractical. Further, it is possible that we would need to make modifications to the terms of the exchange program with respect to employees in countries outside the United States either to comply with local requirements or for tax or accounting reasons.

### **Exchange ratios**

The exchange program is not a one-for-one exchange. Participants in the exchange program will receive a lesser number of new options determined on the basis of an exchange ratio applied to cancelled eligible options. The exchange ratios of eligible options to new options are established by grouping together eligible options with similar exercise prices and assigning an appropriate exchange ratio to each grouping. These exchange ratios are determined relative to the fair value of the eligible options (calculated using the Black-Scholes model) within the relevant grouping. The calculation of fair value using the Black-Scholes model takes into account many variables, such as the volatility of our stock and the expected term of an award. Setting the exchange ratios in this manner is intended to result in the issuance of new options that have a fair value substantially similar to the fair value of the surrendered eligible options they replace. This will reduce any additional compensation cost that we must recognize on the options.

Eligible employees who participate in the exchange program will receive new options for a lesser number of shares with respect to each eligible option exchanged equal to (a) the number of shares of our Common Stock underlying the eligible option exchanged, divided by (b) an exchange ratio set to provide a substantially similar value-for-value exchange in aggregate. The total number of options a participating employee will receive with respect to a surrendered eligible option will be determined by converting the number of shares underlying the

surrendered option according to the applicable exchange ratio and rounding down to the nearest whole share. The exchange ratios will be applied on a grant-by-grant basis.

The exact exchange ratios will be set by our Compensation Committee prior to the commencement of the exchange program to maintain a substantially similar value-for-value exchange in aggregate. However, unless our Compensation Committee adopts another exchange ratio prior to the date eligible options are exchanged for new options, the following exchange ratios are intended to apply:

If the Exercise Price of an Eligible Option Is:	The Exchange Ratio Would Be (Exchange Options for New Options):
\$3.00 to \$5.99	1.5 to 1
\$6.00 to \$8.99	2 to 1
\$9.00 to \$11.00	4 to 1

For example, if an eligible employee exchanged an eligible option to purchase 3,000 shares with an exercise price of \$5.00 per share using an exchange ratio of 1.5 to 1 and assuming the exchange program closes on September 1, 2009 and the closing sales price of our Common Stock on that date is \$2.00, the eligible employee would receive a new stock option to purchase 2,000 shares with a purchase price of \$2.00. This is equal to 3,000 shares divided by 1.5 (the exchange ratio for an eligible option, in this example, with an exercise price of \$5.00 per share). If the eligible employee also exchanged another eligible option to purchase 600 shares with an exercise price of \$10.00 per share using an exchange ratio of 4 to 1, he or she would receive a new stock option to purchase 150 shares with a purchase price of \$2.00. This is equal to 600 shares divided by 4 (the exchange ratio for an eligible option, in this example, with an exercise price of \$10.00 per share).

Continuing with this example, upon completion of the exchange program (assuming all eligible options are surrendered and without including any grants on or after January 1, 2009), the following table summarizes information regarding the eligible options that may be surrendered and the new options that would be granted in exchange:

Exercise Prices of Eligible Options	Number of Shares Underlying Eligible Options	Weighted Average Exercise Price of Eligible Options	Weighted Average Remaining Life of Eligible Options (Yrs)	Exchange Ratio	Maximum Number of New Options That May Be Granted	Weighted Average Remaining Life of New Options (Yrs)
\$3.00 to \$5.99	354,593	\$ 3.70	5.12	1.5 to 1	236,399	4.5
\$6.00 to \$8.99	210,666	\$ 7.27	5.06	2 to 1	105,337	4.87
\$9.00 to \$11.00	97,759	\$ 10.09	4.81	4 to 1	24,444	5.00
Total	663,018	\$ 5.78	5.06		366,180	4.64

After the exchange as presented in this example, where all eligible employees exchange their eligible options, there would be 206,379 additional shares added to the pool for a total of 513,013 shares available for grant and 1,539,482 options outstanding. These outstanding options would have a weighted average exercise price of \$3.55 and a weighted average remaining term of 4.70 years. Since not all eligible employees may choose to exchange their eligible options, the number of options added to the pool may be less than 206,379.

The foregoing exchange ratios are intended to result in the issuance of new options that have a fair value for financial accounting purposes substantially equal to the fair value of the exchanged options they replace. To this end, should the value of our Common Stock change in any material respect, the Compensation Committee will have the discretion to adjust the exchange ratios in order to substantially approximate a value-for-value exchange. Note that if the exchange ratios are adjusted due to our stock price being higher than our assumed price of \$2.00 at the time of such adjustment, the eligible options will be more highly valued and, consequently, the exchange ratios will decrease and we will issue more new options pursuant to the exchange program. Conversely, if the exchange ratios are adjusted due to our stock price being lower than our assumed price of

\$2.00 at the time of such adjustment, the eligible options will be lower in value and, as a result, the exchange ratios will increase and we will issue fewer new options in the exchange program.

#### **Participation in the exchange program**

Eligible employees will not be required to participate in the exchange program. Participation in the exchange program is voluntary. Eligible employees will have an election period of at least 20 business days from the start of the exchange program during which to determine whether they wish to participate.

Since the decision whether to participate in the exchange program is voluntary, we are not able to predict which or how many employees will elect to participate, how many eligible options will be surrendered for exchange, and therefore how many options may be issued. As indicated above, the members of our Board and our executive officers subject to provisions of Section 16 of the Exchange Act are not eligible to participate in the exchange program. As of April 27, 2009, approximately 140 employees were eligible to participate in the exchange program.

#### **Election to exchange under water options**

Eligible employees may decide whether to participate in the exchange program on a grant-by-grant basis. This means that employees may elect to tender any or all of their eligible option grants. However, if an eligible employee determines to tender any shares subject to any particular grant in the exchange program, such employee must tender all shares subject to that particular grant.

#### **Vesting of new options**

The new options will have an adjusted vesting schedule based on the grant date of the surrendered options. Unless our Compensation Committee adopts another vesting schedule prior to the date eligible options are exchanged for new options, the following vesting schedules would apply, subject to the eligible employee's continued service with us or our subsidiaries through each relevant vesting date:

New options issued in exchange for eligible options granted in 2008 will vest as to 1/7th of the shares subject to such option on the date 6 months following the grant date and as to 1/42nd monthly for the remaining 36 months thereafter.

New options issued in exchange for eligible options granted in 2007 will vest as to 1/5th of the shares subject to such option on the date 6 months following the grant date and as to 1/30th monthly for the remaining 24 months thereafter.

New options issued in exchange for eligible options granted in 2006 will vest as to 1/3rd of the shares subject to such option on the date 6 months following the grant date and as to 1/18th monthly for the remaining 12 months thereafter.

New options issued in exchange for eligible options granted in 2002, 2003, 2004 and 2005 will vest as to all the shares subject to such option on the date 6 months following the grant date.

Options granted prior to 2002 are not eligible for exchange.

Even if an eligible option is partially or fully vested, all shares subject to that tendered option will be treated as unvested and, therefore, all shares under the new option granted in exchange for that partially or fully vested option will have a new vesting schedule, as described above.

#### **Terms and conditions of the new options**

Options issued in the exchange program will be granted under our Incentive Plan and will be subject to an option agreement between the Company and the option recipient. The exercise price of the new options will be equal to the closing sales price of our Common Stock as quoted on NASDAQ on the date of grant. The grant of





the new option will follow promptly after the completion of the exchange program. Each option represents the right to purchase shares of our Common Stock during a prescribed period of time and as the option vests. Stock options granted pursuant to the exchange program will be nonstatutory stock options. New options issued in exchange for eligible options granted in 2004 through 2008 will have a term of 5 years from the date of grant. New options issued in exchange for eligible options granted in 2003 will have a term of 4 years from the date of grant and for eligible options granted in 2002 will have a term of 3 years from the date of grant. Notwithstanding the foregoing, none of the new options granted under the exchange program will have a maximum term that is later than the maximum term of the eligible option for which it was exchanged. Other than the exercise price, vesting schedule and term, the other terms and conditions of the new options issued in the exchange program will be substantially the same as those that apply to eligible options granted previously.

#### **Surrendered stock options**

All surrendered stock options will be cancelled upon completion of the exchange program. Up to approximately 206,379 of the shares underlying eligible options that are surrendered under the exchange program (assuming participation of all eligible options in the exchange program and that the eligible options are those with an exercise price above \$3.00) would be returned to the Incentive Plan and would be eligible for future awards under the Incentive Plan. Eligible options that are not surrendered will not be affected and will remain outstanding according to their original terms. Since not all eligible employees may choose to exchange their eligible options, the number of options added to the pool may be less than 206,379 in this example.

#### **Potential modifications to the terms of the exchange program**

While the terms of the exchange program are expected to be materially similar to the terms described in this proposal, we may find it necessary or appropriate to change the terms of the exchange program to take into account, among other things, our administrative needs, local law requirements, accounting rules, and Company policy decisions that make it appropriate to change the exchange program. For example, we may alter the method of determining exchange ratios if we decide that there is a more efficient and appropriate way to set the ratios while still continuing to limit incremental compensation expense. It is also possible that certain terms of the exchange program may need to be modified in countries outside the United States in order to comply with local requirements, or for tax, accounting or administrative reasons. Similarly, we may exclude employees in certain non-U.S. jurisdictions from the exchange program if local law, expense, complexity, administrative burden or other compensatory considerations would make their participation illegal, infeasible or impractical.

Additionally, we may decide not to implement the exchange program even if stockholder approval of the exchange program is obtained or we may amend or terminate the exchange program once it is in progress. Although we do not anticipate that the staff of the SEC will require us to materially modify the terms of the exchange program, it is possible that we may need to alter the terms of the exchange program to comply with comments from the staff. The final terms of the exchange program will be described in an offer to exchange that will be filed with the SEC.

#### **U.S. Federal income tax consequences**

The following is a summary of the anticipated material U.S. federal income tax consequences of participating in the exchange program. A more detailed summary of the applicable tax considerations to participants will be provided in the exchange program documents. The law and regulations themselves are subject to change, and the Internal Revenue Service is not precluded from adopting a contrary position. The exchange of eligible options for new options should be treated as a non-taxable exchange, and neither we nor any of our employees should recognize any income for U.S. federal income tax purposes upon the surrender of eligible options and the grant of new options. The tax consequences for participating non-U.S. employees may differ from the U.S. federal tax consequences described in the preceding sentence.

The foregoing is only a summary of the tax effect of U.S. federal income taxation upon participants of the exchange program and the Company with respect to the surrender of eligible options and grant of new options issued under the exchange program. It does not purport to be complete, and does not discuss the tax consequences of a service provider's death or the provisions of the income tax laws of any municipality, state or foreign country in which the service provider may reside.

#### **Accounting treatment of new equity awards**

On January 1, 2006, we adopted the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (Revised), or SFAS 123(R), on accounting for share-based payments. Under SFAS 123(R), we will recognize incremental compensation expense, if any, resulting from the options granted in the exchange program. The incremental compensation cost will be measured as the excess, if any, of the fair value of each new option granted to employees in exchange for surrendered eligible options, measured as of the date the options are granted, over the fair value of the eligible options surrendered in exchange for the new awards, measured immediately prior to the exchange. As discussed above, we intend to set the exchange ratio so the fair value of the options granted in the exchange program will be substantially equal to or less than the surrendered options they replace, although we may recognize some incremental compensation expense due to the exchange program.

In the event that any of the options are forfeited prior to their vesting due to termination of employment, the compensation expense for the forfeited options will not be recognized. For employees who terminate after satisfying the vesting schedule of their options, the compensation expense that will be recognized for forfeited options is limited to the incremental expense (if any) associated with the new grant and not the expense of the cancelled grant.

#### **Summary of the 2008 Equity Incentive Plan**

The following is a summary of the principal features of the Incentive Plan, as amended by the Board on April 30, 2009, subject to stockholder approval. A copy of the Incentive Plan, as amended and restated, is set forth in Appendix A. A copy of the 1998 Plan, as amended and restated by the Board on April 30, 2009 and subject to stockholder approval, is set forth in Appendix B. The Plans also are available in their entirety in the proxy materials located at the [SEC Filings](#) link on the [Investor Relations](#) page of our website at [www.iridex.com](http://www.iridex.com).

The Incentive Plan provides for the grant of the following types of incentive awards: (i) stock options, (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units, (v) performance units and performance shares, and (vi) and other stock or cash awards. Each of these is referred to individually as an Award. Those who will be eligible for Awards under the Incentive Plan include employees, directors and consultants who provide services to the Company and its parent or subsidiaries. As of April 27, 2009, approximately 150 of our employees, directors and consultants would be eligible to participate in the Incentive Plan.

*Number of Shares of Common Stock Available Under the Incentive Plan.* The maximum aggregate number of shares that may be awarded and sold under the Incentive Plan is 300,000 shares plus any shares subject to stock options or similar awards granted under the 1998 Stock Plan that expire or otherwise terminate without having been exercised in full and shares issued pursuant to awards granted under the 1998 Stock Plan that are forfeited to the Company on or after the date the 1998 Stock Plan expires. As of April 27, 2009, there were 1,352,211 shares subject to stock options outstanding under the 1998 Stock Plan. Further, if Proposal Four of this Proxy Statement is approved by stockholders, the number of shares that may be awarded and sold under the Incentive Plan will increase by 300,000. The shares may be authorized, but unissued, or reacquired Common Stock. As of April 27, 2009, 312,400 shares covering Awards have been granted under the Incentive Plan and 306,634 shares remained available for issuance under the Incentive Plan.

Shares subject to Awards granted with an exercise price less than the fair market value on the date of grant count against the share reserve as two shares for every one share subject to such an Award. To the extent that a share that was subject to an Award that counted as two shares against the Incentive Plan share reserve pursuant to the preceding sentence is returned to the Incentive Plan, the Incentive Plan reserve will be credited with two shares that will thereafter be available for issuance under the Incentive Plan.

If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to restricted stock, restricted stock units, performance shares or performance units, is forfeited to or repurchased by the Company, the unpurchased shares (or for Awards other than options and stock appreciation rights, the forfeited or repurchased shares) which were subject thereto will become available for future grant or sale under the Incentive Plan. Upon exercise of a stock appreciation right settled in shares, the gross number of shares covered by the portion of the stock appreciation right will cease to be available under the Incentive Plan. Shares that have actually been issued under the Incentive Plan under any Award will not be returned to the Incentive Plan and will not become available for future distribution under the Incentive Plan; provided, however, that if shares of restricted stock, restricted stock units, performance shares or performance units are repurchased by the Company or are forfeited to the Company, such shares will become available for future grant under the Incentive Plan as described above. Shares used to pay the exercise price of an Award and/or used to satisfy tax withholding obligations will not become available for future grant or sale under the Incentive Plan. To the extent an Award is paid out in cash rather than stock, such cash payment will not reduce the number of shares available for issuance under the Incentive Plan.

If we declare a stock dividend or engage in a reorganization or other change in our capital structure, including a merger, the Administrator will adjust the (i) number and class of shares available for issuance under the Incentive Plan, (ii) number, class and price of shares subject to outstanding Awards, and (iii) specified per-person limits on Awards to reflect the change.

*Option Exchanges.* The Incentive Plan prohibits the implementation of a stock option exchange program without stockholder approval. If this amendment to the Incentive Plan is approved by stockholders, the Incentive Plan will permit a one-time stock option exchange program that will allow our eligible employees to surrender certain outstanding underwater stock options in exchange for a reduced number of new options to be granted under our Incentive Plan, as described above. The exchange program will begin within 12 months of the date this amendment to the Incentive Plan is approved by stockholders. Within this timeframe, the actual start date will be determined at the discretion of our Compensation Committee. If the exchange program does not commence within 12 months of stockholder approval, the Company will consider any exchange program thereafter to be a new one, requiring new stockholder approval.

*Administration of the Incentive Plan.* The Board, or our Compensation Committee, or a committee of directors or of other individuals satisfying applicable laws and appointed by the Board (referred to as the Administrator), will administer the Incentive Plan. To make grants to certain of the Company's officers and key employees, the members of the Board acting as the Administrator must qualify as non-employee directors under Rule 16b-3 of the Exchange Act, and as outside directors under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) (so that the Company can receive a federal tax deduction for certain compensation paid under the Incentive Plan).

Subject to the terms of the Incentive Plan, the Administrator has the sole discretion to select the employees, consultants, and directors who will receive Awards, to determine the terms and conditions of Awards, to modify or amend each Award (subject to the restrictions of the Incentive Plan), and to interpret the provisions of the Incentive Plan and outstanding Awards.

*Options.* The Administrator is able to grant nonstatutory stock options and incentive stock options under the Incentive Plan. The Administrator determines the number of shares subject to each option, although the Incentive Plan provides that a participant may not receive options for more than 200,000 shares in any fiscal year, except in

connection with his or her initial employment with the Company, in which case he or she may be granted an option covering up to an additional 400,000 shares.

The Administrator determines the exercise price of options granted under the Incentive Plan, provided the exercise price must be at least equal to the fair market value of our Common Stock on the date of grant. In addition, the exercise price of an incentive stock option granted to any participant who owns more than 10% of the total voting power of all classes of our outstanding stock must be at least 110% of the fair market value of the Common Stock on the grant date.

The term of each option will be stated in the Award agreement. The term of an option may not exceed ten years, except that, with respect to any participant who owns 10% of the voting power of all classes of the Company's outstanding capital stock, the term of an incentive stock option may not exceed five years.

After a termination of service with the Company, a participant will be able to exercise the vested portion of his or her option for the period of time stated in the Award agreement. If no such period of time is stated in the participant's Award agreement, the participant will generally be able to exercise his or her option for (i) three months following his or her termination for reasons other than death or disability, and (ii) twelve months following his or her termination due to death or disability. The participant's Award agreement may also provide that if the exercise of an option following the termination of the participant's status as a service provider (other than as a result of the participant's death or disability) would result in liability under Section 16(b) of the Exchange Act, then the option will terminate on the earlier of (i) the expiration of the term of the option, or (ii) the 10th day after the last date on which such exercise would result in such liability under Section 16(b). The participant's Award agreement may also provide that if the exercise of an option following the termination of the participant's status as a service provider (other than as a result of the participant's death or disability) would be prohibited because the issuance of shares would violate securities laws, then the option will terminate on the earlier of (i) the expiration of the term of the option, or (ii) the expiration of a period of three months after the termination of the participant during which the exercise of the option would not violate securities laws.

*Restricted Stock.* Awards of restricted stock are rights to acquire or purchase shares of our Common Stock, which vest in accordance with the terms and conditions established by the Administrator in its sole discretion. For example, the Administrator may set restrictions based on the achievement of specific performance goals. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed. The Award agreement generally will grant the Company a right to repurchase or reacquire the shares upon the termination of the participant's service with the Company for any reason (including death or disability). The Administrator will determine the number of shares granted pursuant to an Award of restricted stock, but no participant will be granted a right to purchase or acquire more than 150,000 shares of restricted stock during any fiscal year, except that a participant may be granted up to an additional 150,000 shares of restricted stock in connection with his or her initial employment with the Company.

*Restricted Stock Units.* Awards of restricted stock units result in a payment to a participant only if the vesting criteria the Administrator establishes is satisfied. For example, the Administrator may set vesting criteria based on the achievement of specific performance goals. The restricted stock units will vest at a rate determined by the Administrator; provided, however, that after the grant of restricted stock units, the Administrator, in its sole discretion, may reduce or waive any restrictions for such restricted stock units. Upon satisfying the applicable vesting criteria, the participant will be entitled to the payout specified in the Award agreement. The Administrator, in its sole discretion, may pay earned restricted stock units in cash, shares, or a combination thereof. Restricted stock units that are fully paid in cash will not reduce the number of shares available for grant under the Incentive Plan. On the date set forth in the Award agreement, all unearned restricted stock units will be forfeited to the Company. The Administrator determines the number of restricted stock units granted to any participant, but during any fiscal year of the Company, no participant may be granted more than 150,000 restricted stock units during any fiscal year, except that the participant may be granted up to an additional 150,000 restricted stock units in connection with his or her initial employment to the Company.

*Stock Appreciation Rights.* The Administrator will be able to grant stock appreciation rights, which are rights to receive the appreciation in fair market value of Common Stock between the exercise date and the date of grant. The Company can pay the appreciation in either cash, shares of Common Stock, or a combination thereof. The Administrator, subject to the terms of the Incentive Plan, will have complete discretion to determine the terms and conditions of stock appreciation rights granted under the Incentive Plan, provided, however, that the exercise price may not be less than 100% of the fair market value of a share on the date of grant and the term of a stock appreciation right may not exceed ten years. No participant will be granted stock appreciation rights covering more than 200,000 shares during any fiscal year, except that a participant may be granted stock appreciation rights covering up to an additional 400,000 shares in connection with his or her initial employment with the Company.

After termination of service with the Company, a participant will be able to exercise the vested portion of his or her stock appreciation right for the period of time stated in the Award agreement. If no such period of time is stated in a participant's Award agreement, a participant will generally be able to exercise his or her vested stock appreciation rights for the same period of time as applies to stock options.

*Performance Units and Performance Shares.* The Administrator will be able to grant performance units and performance shares, which are Awards that will result in a payment to a participant only if the performance goals or other vesting criteria the Administrator may establish are achieved or the Awards otherwise vest. Earned performance units and performance shares will be paid, in the sole discretion of the Administrator, in the form of cash, shares, or in a combination thereof. The Administrator will establish performance or other vesting criteria in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. The performance units and performance shares will vest at a rate determined by the Administrator; provided, however, that after the grant of a performance unit or performance share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such performance unit or performance share. During any fiscal year, no participant will receive more than 150,000 performance shares and no participant will receive performance units having an initial value greater than \$1,000,000, except that a participant may be granted performance shares covering up to an additional 150,000 shares in connection with his or her initial employment with the Company. Performance units will have an initial value established by the Administrator on or before the date of grant. Performance shares will have an initial value equal to the fair market value of a share of our Common Stock on the grant date.

*Performance Goals.* Awards and other incentives granted under the Incentive Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Section 162(m) of the Code and may provide for a targeted level or levels of achievement including: cash position, earnings per share, individual objectives, net income, operating cash flow, operating income, return on assets, return on equity, return on sales, revenue, and total stockholder return. The performance goals may differ from participant to participant and from Award to Award.

*Transferability of Awards.* Awards granted under the Incentive Plan are generally not transferable, and all rights with respect to an Award granted to a participant generally will be available during a participant's lifetime only to the participant.

*Change in Control.* In the event of a merger or change in control of the Company, each outstanding Award will be treated as the Administrator determines, including that each Award will be assumed or an equivalent option or right substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation, or the parent or subsidiary of the successor corporation, does not assume or substitute for the Award, the participant will fully vest in and have the right to exercise all of his or her outstanding options or stock appreciation rights, including shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on restricted stock will lapse, and, with respect to restricted stock units, performance shares and performance units, all performance goals or other vesting criteria will be deemed

achieved at target levels and all other terms and conditions met. In addition, if an option or stock appreciation right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a change in control, the Administrator will notify the participant in writing or electronically that the option or stock appreciation right will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the option or stock appreciation right will terminate upon the expiration of such period.

*Amendment and Termination of the Incentive Plan.* The Administrator will have the authority to amend, alter, suspend or terminate the Incentive Plan, except that stockholder approval will be required for any amendment to the Incentive Plan to the extent required by any applicable laws. No amendment, alteration, suspension or termination of the Incentive Plan will impair the rights of any participant, unless mutually agreed otherwise between the participant and the Administrator and which agreement must be in writing and signed by the participant and the Company. The Incentive Plan will terminate on June 11, 2018, unless the Board terminates it earlier.

#### Number of Awards Granted to Employees, Consultants, and Directors

The number of Awards that an employee, director or consultant may receive under the Incentive Plan is in the discretion of the Administrator and therefore cannot be determined in advance. The 1998 Plan expired on February 23, 2008, and therefore no equity awards will be granted or have been granted since such date under the 1998 Plan. The following table sets forth (a) the aggregate number of shares of Common Stock subject to options granted under the Incentive Plan during the last fiscal year and (b) the average per share exercise price of such options.

Name of Individual or Group	Number of Options Granted	Average Per Share Exercise Price
Theodore A. Boutacoff	25,000	\$ 0.90
Eduardo Arias	15,000	\$ 0.90
James L. Donovan		
Sanford Fitch	5,000	\$ 2.46
Garrett Garrettson	10,000	\$ 2.46
Donald L. Hammond	5,000	\$ 2.46
James B. Hawkins		
James Mackaness	25,000	\$ 0.90
William M. Moore		
Timothy S. Powers	15,000	\$ 0.90
All executive officers, as a group	80,000	\$ 0.90
All directors who are not executive officers, as a group	20,000	\$ 2.46
All employees who are not executive officers, as a group	192,900	\$ 1.59

#### Federal Tax Aspects

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and the Company of Awards granted under the Plans. Tax consequences for any particular individual may be different.

*Incentive Stock Options.* An optionee recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an incentive stock option qualifying under Section 422 of the Code. Optionees who neither dispose of their shares within 2 years following the date the option was granted nor within 1 year following the exercise of the option will normally recognize a capital gain or loss equal to the difference, if any, between the sale price and the purchase price of the shares. If an optionee satisfies such holding periods upon a sale of the shares, the Company will not be entitled to any deduction for federal income tax purposes. If an optionee disposes of shares within 2 years after the date of grant or within 1 year after the date of exercise (a

disqualifying disposition ), the difference between the fair market value of the shares on the determination date (see discussion under Nonstatutory Stock Options below) and the option exercise price (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed as ordinary income at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. Any ordinary income recognized by the optionee upon the disqualifying disposition of the shares generally should be deductible by the Company for federal income tax purposes, except to the extent such deduction is limited by applicable provisions of the Code.

The difference between the option exercise price and the fair market value of the shares on the determination date of an incentive stock option (see discussion under Nonstatutory Stock Options below) is treated as an adjustment in computing the optionee's alternative minimum taxable income and may be subject to an alternative minimum tax which is paid if such tax exceeds the regular tax for the year. Special rules may apply with respect to certain subsequent sales of the shares in a disqualifying disposition, certain basis adjustments for purposes of computing the alternative minimum taxable income on a subsequent sale of the shares and certain tax credits which may arise with respect to optionees subject to the alternative minimum tax.

*Nonstatutory Stock Options.* Options not designated or qualifying as incentive stock options will be nonstatutory stock options having no special tax status. An optionee generally recognizes no taxable income as the result of the grant of such an option. Upon exercise of a nonstatutory stock option, the optionee normally recognizes ordinary income in the amount of the difference between the option exercise price and the fair market value of the shares on the determination date (as defined below). If the optionee is an employee, such ordinary income generally is subject to withholding of income and employment taxes. The determination date is the date on which the option is exercised unless the shares are subject to a substantial risk of forfeiture (as in the case where an optionee is permitted to exercise an unvested option and receive unvested shares which, until they vest, are subject to forfeiture or repurchase upon the optionee's termination of service) and are not transferable, in which case the determination date is the earlier of (1) the date on which the shares become transferable or (2) the date on which the shares are no longer subject to a substantial risk of forfeiture. If the determination date is after the exercise date, the optionee may elect, pursuant to Section 83(b) of the Code, to have the exercise date be the determination date by filing an election with the Internal Revenue Service no later than 30 days after the date the option is exercised. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value on the determination date, will be taxed as capital gain or loss. No tax deduction is available to the Company with respect to the grant of a nonstatutory stock option or the sale of the stock acquired pursuant to such grant. The Company generally should be entitled to a deduction equal to the amount of ordinary income recognized by the optionee as a result of the exercise of a nonstatutory stock option, except to the extent such deduction is limited by applicable provisions of the Code.

*Stock Appreciation Rights.* In general, no taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the fair market value of any shares received. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

*Restricted Stock.* A participant acquiring restricted stock generally will recognize ordinary income equal to the fair market value of the shares on the determination date (as defined above under Nonstatutory Stock Options ). If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. If the determination date is after the date on which the participant acquires the shares, the participant may elect, pursuant to Section 83(b) of the Code, to have the date of acquisition be the determination date by filing an election with the Internal Revenue Service no later than 30 days after the date the shares are acquired. Upon the sale of shares acquired pursuant to a restricted stock award, any gain or loss, based on the difference between the sale price and the fair market value on the determination date, will be taxed as capital gain



or loss. The Company generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

*Stock Issuance.* A recipient of a fully vested stock issuance will recognize income generally measured by the fair market value of the shares on the date of grant, less the purchase price paid (if any). A recipient of a stock issuance that is subject to a vesting schedule will not recognize any income at the time of grant unless he or she elects to be taxed at that time by filing a Section 83(b) election with the Internal Revenue Service within 30 days of the issuance. Instead, the recipient of an unvested stock issuance will generally recognize income in an amount equal to the difference between the fair market value of the stock at the time of vesting and the amount paid for the stock, if any. Any taxable income recognized by a recipient who is also an employee in connection with a stock issuance will be subject to tax withholding by the Company. The Company will generally be entitled to an income tax deduction in the same amount as the ordinary income recognized by the recipient. Upon a disposition of such shares by the recipient, any gain or loss is treated as long-term or short-term capital gain or losses, depending on the length of time the recipient held the shares.

*Restricted Stock Units.* There are no immediate tax consequences of receiving an award of restricted stock units. A participant who is awarded restricted stock units will be required to recognize ordinary income in an amount equal to the fair market value of shares issued to such participant at the end of the applicable vesting period or, if later, the settlement date elected by the Administrator or a participant. Any additional gain or loss recognized upon any later disposition of any shares received would be capital gain or loss. The Company generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

*Performance Units and Performance Shares.* A participant generally will recognize no income upon the grant of a performance share or a performance unit award. Upon the settlement of such awards, participants normally will recognize ordinary income in the year of receipt in an amount equal to the cash received and the fair market value of any cash or nonrestricted shares received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. If the participant receives shares of stock, the participant generally will be taxed in the same manner as described above (see discussion under *Restricted Stock Awards* ). Upon the sale of any shares received, any gain or loss, based on the difference between the sale price and the fair market value on the determination date (as defined above under *Nonstatutory Stock Options* ), will be taxed as capital gain or loss. The Company generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

*Section 409A.* Section 409A of the Code ( *Section 409A* ) provides certain new requirements for non-qualified deferred compensation arrangements with respect to an individual's deferral and distribution elections and permissible distribution events. Awards granted under the Plans with a deferral feature will be subject to the requirements of Section 409A. If an award is subject to and fails to satisfy the requirements of Section 409A, the recipient of that award may recognize ordinary income on the amounts deferred under the award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an award that is subject to Section 409A fails to comply with Section 409A's provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as interest on such deferred compensation.

*Tax Effect for the Company.* The Company generally will be entitled to a tax deduction in connection with an award under the Plans in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonqualified stock option). Special rules limit the deductibility of compensation paid to our chief executive officer and other covered employees as determined under Section 162(m) of the Code and applicable guidance.

THE FOREGOING IS ONLY A SUMMARY OF THE TAX EFFECT OF FEDERAL INCOME TAXATION UPON PARTICIPANTS AND THE COMPANY WITH RESPECT TO THE GRANT AND EXERCISE OF AWARDS UNDER THE PLANS. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A SERVICE PROVIDER'S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE SERVICE PROVIDER MAY RESIDE.

**Effect on the Company's Stockholders**

We are unable to predict the precise impact of the exchange program on our stockholders because we are unable to predict how many or which eligible employees will exchange their eligible options. The exchange program is intended to restore competitive and appropriate equity incentives for our employees, reduce our existing overhang and recapture value for compensation expense already being incurred. The following table summarizes the effect of the program, assuming all eligible options were exchanged, as of April 22, 2009:

	Prior to the Exchange:	Following the Exchange:
Shares of Common Stock Outstanding	8,844,301	8,844,301
Shares Covered by All Outstanding Options (including options held by all employees, executive officers and directors)	1,836,320	1,539,482
Shares Available for Future Award Grants Under the Incentive Plan	306,634	513,013
Shares reserved for conversion of Series A Preferred Stock	1,000,000	1,000,000

**Required Vote**

If a quorum is present, the affirmative vote of a majority of the Votes Cast will be required to approve the amendments to the Plans to permit the one-time stock option exchange program.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR APPROVAL OF THE AMENDMENTS TO THE 2008 EQUITY INCENTIVE PLAN AND 1998 STOCK PLAN TO PERMIT A ONE-TIME STOCK OPTION EXCHANGE PROGRAM**

## **PROPOSAL FOUR**

### **APPROVAL OF SHARE RESERVE INCREASE UNDER 2008 EQUITY INCENTIVE PLAN**

The Board is requesting that stockholders approve an amendment to the Company's amended and restated Incentive Plan to add 300,000 shares to the total number of shares of our Common Stock reserved for issuance under the Incentive Plan. On April 30, 2009, our Board approved the amendment to the Incentive Plan, subject to approval from the stockholders at the 2009 Annual Meeting. The Board believes that approval of the amendment is essential to the Company's continued success as the additional shares will enable the Company to continue to use the Incentive Plan to achieve its employee performance, recruiting, retention and incentive goals.

The Board and management believe that equity awards motivate high levels of performance, align the interests of employees and stockholders by giving employees the perspective of an owner with an equity stake in the Company, and provide an effective means of recognizing employee contributions to the success of the Company. The Board and management believe that equity awards are a competitive necessity in our high-technology industry, and are essential to recruiting and retaining the highly qualified technical and other key personnel who help the Company meet its goals, as well as rewarding and encouraging current employees. The Board and management believe that the ability to continue to grant equity awards will be important to the future success of the Company.

The Incentive Plan does not have an evergreen provision that provides for an automatic increase in the number of the shares available for issuance each year. If stockholders approve the amendment to the Incentive Plan, we currently anticipate that we will not ask stockholders for additional shares for issuance under the Plan until at least the 2012 Annual Meeting, depending on business conditions and needs as well as assuming that the one-time stock option exchange program described in Proposal Three of this Proxy Statement is approved by stockholders, under which we anticipate a net return of shares to the Incentive Plan share reserve and that the retention and incentive goals of our equity compensation program will be furthered by the implementation of the exchange program.

Approval of the Incentive Plan amendment requires the affirmative vote of the holders of a majority of the Votes Cast. If stockholders do not approve the amendment to the Incentive Plan, no shares will be added to the total number of shares reserved for issuance under the Incentive Plan. Our named executive officers and directors have an interest in this proposal.

Stockholder approval of the amendment to the Incentive Plan under this Proposal Four is being sought separately from the amendments to the Plans to permit a one-time stock option exchange program under Proposal Three. Therefore, a vote for Proposal Four to increase the Incentive Plan's share reserve will not constitute a vote for Proposal Three to amend the Plans to permit the one-time stock option exchange.

#### **Summary of the 2008 Equity Incentive Plan**

A summary of the principal features of the Incentive Plan, as amended by the Board on April 30, 2009, subject to stockholder approval, is provided in the section of Proxy Proposal Three of this Proxy Statement titled "Summary of the 2008 Equity Incentive Plan." A copy of the Incentive Plan, as amended and restated, is set forth in Appendix A. The Incentive Plan also is available in its entirety in the proxy materials located at the "SEC Filings" link on the "Investor Relations" page of our website at [www.iredex.com](http://www.iredex.com).

#### **Number of Awards Granted to Employees, Consultants, and Directors**

The number of Awards that an employee, director or consultant may receive under the Incentive Plan is in the discretion of the Administrator and therefore cannot be determined in advance. The table set forth in Proposal Three of this Proxy Statement under the section titled "Number of Awards Granted to Employees, Consultants,

and Directors sets forth (a) the aggregate number of shares of Common Stock subject to options granted under the Incentive Plan during the last fiscal year, and (b) the average per share exercise price of such options.

**Federal Tax Aspects**

The paragraphs set forth in Proposal Three of this Proxy Statement under the section titled Federal Tax Aspects provides a summary of the general federal income tax consequences to U.S. taxpayers and the Company of Awards granted under the Incentive Plan.

**Required Vote**

If a quorum is present, the affirmative vote of a majority of the Votes Cast will be required to approve the amendment to the Incentive Plan to increase the share reserve by 300,000 shares.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT  
STOCKHOLDERS VOTE FOR APPROVAL OF THE SHARE RESERVE INCREASE  
UNDER THE 2008 EQUITY INCENTIVE PLAN**

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**EXECUTIVE OFFICERS**

The following table sets forth certain information with respect to the Company's executive officers as of April 22, 2009.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Theodore A. Boutacoff	61	President and Chief Executive Officer
Eduardo Arias	65	Senior Vice President, International Sales and Business Development
James L. Donovan	71	Vice President, Corporate Business Development
James Mackaness	45	Chief Financial Officer
Timothy S. Powers	47	Vice President, Operations

*Theodore A. Boutacoff* currently serves as the President and Chief Executive Officer. Mr. Boutacoff co-founded the Company and served as its President and Chief Executive Officer from February 1989 to July 2005 and again from October 2007 to the present and as Chairman of the Board from July 2005 to April 2009. Mr. Boutacoff also served as senior principal advisor to the Company's Chief Executive Officer from July 2005 to October 2007. He has been a member of its Board of Directors since February 1989. Mr. Boutacoff received a B.S. in Civil Engineering from Stanford University.

*Eduardo Arias* co-founded the Company and, from April 1989 to September 1991, Mr. Arias served as a Vice President, Sales & Marketing and, since September 1991, served as Senior Vice President, International Worldwide Sales. He was promoted to his current position, Senior Vice President, International Sales and Business Development in January 2002. Mr. Arias completed programs in Industrial and Military Electronics at the National Radio Institute and Strategic Marketing at Stanford University, as well as management seminars through the American Management Association and scientific seminars sponsored by Varian, Inc. and Coherent, Inc.

*James L. Donovan* co-founded the Company, was a director of the Company from 1989 until April 2009 and has served as the Company's Vice President, Corporate Business Development since October 1997. Mr. Donovan also served as Chief Financial Officer of the Company from February 1989 to October 1997, except during the period from June 1996 to November 1996. Mr. Donovan received a B.S. in Business Administration from Southern Oregon University.

*James Mackaness* joined the Company in January 2008 as Chief Financial Officer. Prior to his appointment with the Company, from September 2001 to December 2007, Mr. Mackaness served as Chief Financial Officer and Vice President of Finance of NextHop Technologies, Inc., a networking wireless technology company. Prior to that, Mr. Mackaness served as Vice President, Finance and Chief Financial Officer of Infogear Technologies Corporation and held senior management positions at Cisco Systems, Inc. and Ernst & Young LLP. Mr. Mackaness received his B.A. with honors in Psychology from the University of Warwick, England and is a Chartered Accountant and member of the Institute of Chartered Accountants of England and Wales.

*Timothy S. Powers* joined the Company in July 1997 as our Vice President of Operations and has continued to serve in that capacity to the present. Mr. Powers received a B.S. in Industrial Technology and an M.M.S. in Manufacturing Engineering, both from the University of Lowell.

## EXECUTIVE COMPENSATION

### Compensation Philosophy

The Company's compensation philosophy is designed to attract, retain and reward personnel who contribute to the success of the Company. To achieve these goals, the Company strives to provide a comprehensive compensation package for each executive officer that is competitive with those offered by companies of similar type and size, in the same geographical area and whose executives perform functions similar to those performed by the executives of the Company. The Company also incorporates equity-based incentives into its overall compensation strategy to align the financial interests of our executives with those of our stockholders.

### Role and Authority of the Compensation Committee

For the fiscal year ended January 3, 2009, the Compensation and Nominating Committee of the Board established the overall executive compensation strategies of the Company and approved compensation elements for the Company's Chief Executive Officer and other executive officers. On February 26, 2009, the Board reconstituted its standing committees and established a new Compensation Committee and a Nominating and Governance Committee. Among other things, the Compensation Committee reviews and advises the Board regarding all forms of compensation to be provided to the officers, employees, directors and consultants of the Company. The Compensation Committee is comprised of three independent, members of the Board, none of whom has interlocking relationships as defined by the SEC. The Compensation Committee has available to it such external compensation advice and data as the Compensation Committee deems appropriate to obtain. The Compensation Committee may delegate any of its responsibilities to one or more of its members or to the Company's directors or to members of management, to the extent permitted by applicable law and subject to such reporting to or ratification by the Compensation Committee as the Compensation Committee deems necessary or appropriate.

### Executive Officer Compensation

The objectives of our executive officer compensation program are to attract, retain, motivate and reward key personnel who possess the necessary leadership and management skills through competitive base salary, annual cash bonus incentives, long-term incentive compensation in the form of stock options, and various benefits generally available to employees of the Company.

#### *Base Salary*

Base salary levels for the Company's executive officers are generally targeted to be competitive with companies in the same stage of development and in the same industry and geographic area. In determining salaries, the Compensation Committee also takes into account the Chief Executive Officer's recommendations, individual experience, contributions to corporate goals and the Company's performance.

#### *Incentive Bonuses*

The Compensation Committee believes that a cash incentive bonus plan can serve to motivate the Company's executive officers and management to address annual performance goals, using more immediate measures for performance than those reflected in the appreciation in value of stock options. The Board approved an incentive bonus plan for fiscal 2009, which is described in further detail below.

#### *2009 Incentive Plan*

The Company's 2009 Incentive Plan (the "2009 Incentive Plan") provides for the payment of cash bonuses to eligible employees of the Company, including the Company's executive officers, upon the Company's

achievement of a targeted operating income amount. Payouts under the 2009 Incentive Program are calculated formulaically for each employee based upon the following factors: (1) operating income achieved by the Company, (2) the employee's salary, (3) the employee's grade level, (4) the employee's individual performance during the year and (5) the number of months of service the employee has provided to the Company during the year. Such payouts will be determined by senior management, subject to the approval of the Compensation Committee.

#### *Stock Option Grants*

Stock options or other stock grants are granted to executive officers and other employees under the Company's option plans. These stock options or other stock grants are intended to focus the recipient on the Company's long-term performance to improve stockholder value and to retain the services of executive officers in a competitive job market by providing significant long-term earning potential. To this end, stock options generally vest over a four-year period, based on continued employment. Factors considered in granting stock options to executive officers of the Company are the duties and responsibilities of each individual, such individual's contributions to the success of the Company and other relevant factors. The Company views stock options as an important component of long-term compensation for executive officers since options motivate executive officers to manage the Company in a manner that is consistent with the interests of stockholders.

#### *2005 Employee Stock Purchase Plan*

Our 2005 Employee Stock Purchase Plan (the Purchase Plan) was adopted by the Board in June 2005. The Purchase Plan permits eligible employees (including officers) to purchase Common Stock through payroll deductions, which may not exceed 10% of an employee's compensation. No employee may purchase more than \$25,000 worth of stock in any calendar year or more than 2,000 shares of Common Stock in any twelve-month period. The price of shares purchased under the Purchase Plan is 85% of the lower of the fair market value of the Common Stock at the beginning of the offering period or the end of the offering period. In February of 2007 the Board suspended the Purchase Plan until further notice.

#### *2008 Equity Incentive Plan*

The 2008 Equity Incentive Plan (the 2008 EIP) was adopted by the Board in February 2008 and was approved by the stockholders in June 2008. The 2008 EIP provides for the grant of the following types of incentive awards: (i) stock options; (ii) stock purchase rights; (iii) restricted stock; (iv) restricted stock units; (v) performance shares; (vi) performance units; and (vii) stock appreciation rights. Since the expiration of the 1998 Stock Plan, equity compensation granted to the Company's non-employee directors has been granted under the 2008 EIP. The exercise price of incentive stock options and stock appreciation rights granted under the 2008 EIP must be at least equal to the fair market value of the shares at the time of grant. With respect to any recipient who owns stock possessing more than 10% of the voting power of our outstanding capital stock, the exercise price of any option or stock purchase right granted must be at least equal to 110% of the fair market value at the time of grant. Options granted under the 2008 EIP are exercisable at such times and under such conditions as determined by the administrator of the plan; generally over a four-year period. The maximum term of incentive stock options granted to any recipient must not exceed ten years; provided, however, that the maximum term of an incentive stock option granted to any recipient possessing more than 10% of the voting power of our outstanding capital stock must not exceed five years. In the case of stock purchase rights, unless the administrator of the plan determines otherwise, we have a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment with us for any reason (including death or disability). Such repurchase option lapses at a rate determined by the administrator of the plan. The purchase price for shares repurchased by us is the original price paid by the purchaser. The form of consideration for exercising an option or stock purchase right, including the method of payment, is determined by the administrator. The 2008 EIP expires in June 2018.

In the event of a merger or change in control of the Company, each outstanding award granted under the 2008 EIP will be treated as the administrator of the plan determines, including that each award will be assumed or an equivalent option or right substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation, or the parent or subsidiary of the successor corporation, does not assume or substitute for the award, the participant will fully vest in and have the right to exercise all of his or her outstanding options or stock appreciation rights, including shares as to which such awards would not otherwise be vested or exercisable, all restrictions on restricted stock will lapse, and, with respect to restricted stock units, performance shares and performance units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. In addition, if an option or stock appreciation right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a change in control, the administrator will notify the participant in writing or electronically that the option or stock appreciation right will be fully vested and exercisable for a period of time determined by the administrator in its sole discretion, and the option or stock appreciation right will terminate upon the expiration of such period.

#### *401(k) Plan*

In fiscal 2008, the Company's named executive officers were eligible to participate in the Company's 401(k) Plan. Under the 401(k) Plan, eligible employees may contribute, on a pre-tax basis, up to 15% of the employee's total annual income from the Company, excluding bonuses, subject to certain IRS limitations. The Company matches 50% of the employee's contribution up to a maximum amount. The maximum Company match was \$2,000 per employee in fiscal year 2007 and \$2,000 per employee in fiscal year 2008. All full-time employees who have attained age 18 are eligible to participate in the plan. All contributions are allocated to the employee's individual account and, at the employee's election, are invested in one or more investment funds available under the plan. Contributions are fully vested and not forfeitable. As of the first pay date in January 2009, the Company's 401(k) Plan was amended to temporarily suspend the matching employer contributions.

#### **CEO Compensation**

Compensation for the Chief Executive Officer is consistent with the philosophies and practices described above for executive officers in general. The Chief Executive Officer's base salary was not increased in 2008. Mr. Boutacoff assumed the responsibilities of Chief Executive Officer in October 2007 at the same base salary he received as Chief Executive Officer in July 2005.



**2008 Summary Compensation Table**

The following table shows, with respect to the Company's Chief Executive Officer and each of the Company's other two most highly compensated executive officers earning more than \$100,000 in salary and bonus (the named executive officers), information concerning compensation awarded to or earned by each named executive officer or paid for their services to the Company in all capacities during fiscal 2008. The entries under the column heading "All Other Compensation" in the table include the cost of 401(k) matching contributions and life insurance premiums for each named executive officer.

Name and Principal Position (1)	Year	Salary (\$)	Bonus (\$)	Option	All Other	Total
				Awards (\$)(2)	Compensation (\$)	(\$)
Theodore A. Boutacoff President and Chief Executive Officer	2008	\$ 240,000		\$ 4,136	\$ 5,406	\$ 249,542
	2007	\$ 241,831	\$ 804	\$ 110,031	\$ 2,000	\$ 354,667
	2006	\$ 240,000		\$ 167,626	\$ 1,000	\$ 408,626
James Mackaness Chief Financial Officer	2008	\$ 228,923		\$ 29,568	\$ 2,715	\$ 261,206
	2007					
	2006					
Eduardo Arias Senior Vice President, International Sales and Business Development	2008	\$ 242,675		\$ 14,856	\$ 4,715	\$ 262,246
	2007	\$ 203,357	\$ 2,019	\$ 15,889	\$ 4,500	\$ 225,766
	2006	\$ 254,776	\$ 5,000	\$ 14,416	\$ 1,000	\$ 275,192

- (1) Mr. Mackaness was appointed as the Company's Chief Financial Officer in January 2008.
- (2) Reflects the dollar amount recognized for financial statement reporting purposes for fiscal 2006, 2007 and 2008 in accordance with FAS 123(R), and thus may include amounts for awards granted in and prior to 2006, 2007 and 2008. The assumptions used in the valuation of these awards are set forth in the notes of our Annual Reports on Form 10-K for the years ended December 30, 2006, December 29, 2007 and January 3, 2009 and filed with the SEC on March 30, 2007, April 10, 2008 and April 1, 2009, respectively. These amounts reflect the Company's accounting expense for these awards and do not correspond to the actual value that will be recognized by the named executive officers.

**Outstanding Equity Awards at 2008 Fiscal Year-End**

The following table shows, as to the named executive officers, the number of options exercisable and unexercisable at January 3, 2009.

Name	Number of Securities Underlying		Option Exercise Price (1) (\$)	Option Expiration (2) Date
	Exercisable	Unexercisable (#)		
Theodore A. Boutacoff (3)	41,448		\$ 5.39	11/11/2013
	18,552		\$ 5.39	11/11/2013
	43,314		\$ 5.56	4/28/15
	31,686		\$ 5.56	4/28/15
		25,000	\$ 0.90	12/11/15
James Mackaness (3)	20,000	60,000	\$ 2.49	1/2/15
		25,000	\$ 0.90	12/11/15
Eduardo Arias (3)	10,000		\$ 3.71	7/19/11
	5,621	4,379	\$ 7.84	9/17/13
	15,000		\$ 4.74	9/23/13
	1,250	4,750	\$ 3.53	2/13/15
	9,374	625	\$ 5.08	3/31/15
	15,000	\$ 0.90	12/11/15	



- (1) Options were granted at an exercise price equal to the fair market value of the Company's Common Stock, as determined by reference to the closing price reported on The Nasdaq Global Market on the date of grant.
- (2) Options may terminate before their expiration dates if the optionee's status as an employee is terminated or upon the optionee's death or disability.
- (3) The options granted to Messrs. Boutacoff and Arias vest at the rate of 1/48th of the shares subject to the option each month following the date of grant. The option granted with an exercise price of \$2.49 to Mr. Mackaness vests at the rate of 12/48ths of the shares subject to the option 12 months following the date of grant, and 1/48<sup>th</sup> of the shares vest each month thereafter. The option granted with an exercise price of \$0.90 to Mr. Mackaness vests at the rate of 1/48th of the shares subject to the option each month following the date of grant.

#### **Termination and Change of Control Arrangements**

##### *Change of Control Agreement with James Mackaness*

On January 22, 2008, the Company entered into a Change of Control and Severance Agreement (the "Change of Control Agreement") with James Mackaness, the Company's Chief Financial Officer. The Change of Control Agreement provides Mr. Mackaness with certain severance benefits in the event that his employment with the Company is terminated under certain circumstances described therein.

##### *Termination within the Change of Control Context*

If in the event that: (a) within twelve months following a Change of Control (as defined in the Change of Control Agreement), or (b) at any time prior to a Change of Control if such termination is effected at the request of an Acquiror (as defined in the Change of Control Agreement), (x) Mr. Mackaness terminates his employment with the Company for Good Reason (as defined in the Change of Control Agreement), or (y) the Company terminates Mr. Mackaness' employment without Cause (as defined in the Change of Control Agreement), and, in each case, Mr. Mackaness signs and does not revoke a standard release of claims with the Company, then Mr. Mackaness will receive the following severance from the Company:

(i) *Cash Severance Payment.* Mr. Mackaness would be paid a lump sum payment equal to six months of his base salary.

(ii) *Vesting Acceleration.* Fifty percent of the shares underlying the then-outstanding and unvested stock options in Company Common Stock held by Mr. Mackaness, if any, would immediately vest and become exercisable, and fifty percent of any shares of restricted stock in the Company then-held by Mr. Mackaness, if any, would immediately vest and the applicable Company right of repurchase or reacquisition with respect to such shares will lapse.

(iii) *Continued Employee Benefits.* Mr. Mackaness would receive reimbursement from the Company for a period of up to six months for the costs and expenses incurred by himself and/or his eligible dependents for coverage under the Company's benefit plans, provided that such coverage is timely elected under COBRA.

##### *Termination outside the Change of Control Context*

If Mr. Mackaness' employment with the Company terminates: (i) voluntarily by Mr. Mackaness (except upon a termination for Good Reason (a) within twelve (12) months following a Change of Control, or (b) at any time prior to a Change of Control if such termination is at the request of an Acquiror), (ii) for Cause by the Company or (iii) without Cause by the Company if not (a) within twelve months following a Change of Control, or (b) at any time prior to a Change of Control if such termination is at the request of an Acquiror, then Mr. Mackaness would not be entitled to receive any severance from the Company.

**Director Compensation**

The following table provides information concerning the compensation paid by us to each of our non-employee directors for fiscal 2008. Mr. Boutacoff and Mr. Donovan, who are our employees, did not receive additional compensation for their services as a director.

Name	Fees Earned or		Total (\$)
	Paid in Cash (\$)	Option Awards (\$)(1)(2)	
Sanford Fitch	\$ 36,000	\$ 15,751	\$ 51,751
Garrett Garrettson (3)	\$ 39,250	\$ 19,352	\$ 58,602
Donald L. Hammond	\$ 19,000	\$ 16,883	\$ 35,883
James B. Hawkins	\$ 33,500	\$ 13,487	\$ 46,987
William M. Moore	\$ 33,500	\$ 11,837	\$ 45,337

- (1) Reflects the dollar amount recognized for financial statement reporting purposes for fiscal 2008, in accordance with FAS 123(R), and this may include amounts for awards granted in and prior to 2008. The assumptions used in the valuation of these awards are set forth in the notes of our Annual Report on Form 10-K for the year ended January 3, 2009 and filed with the SEC on April 1, 2009. These amounts reflect the Company's accounting expense for these awards and do not correspond to the actual value that will be recognized by the directors.
- (2) As of January 3, 2009, the aggregate number of underlying options outstanding for each of our non-employee directors was:

Name	Aggregate Number of Shares Underlying Outstanding Options
Sanford Fitch	30,000
Garrett A. Garrettson	35,000
Donald L. Hammond	41,250
James B. Hawkins	15,000
William M. Moore	15,000

- (3) Lead Independent Director.

We use a combination of cash and equity compensation to attract and retain qualified candidates to serve on our Board.

*Cash Compensation*

Members of the Board (if non-employees), including the Chairman, receive \$1,500 per Board meeting attended. Members of the Audit and Corporate Governance Committee and the Compensation and Nominating Committee receive \$1,000 per committee meeting attended, and the Chairman of each of these committees receives \$1,500 per committee meeting attended. The Chairman of the Board (if non-employee) or Lead Independent Director receives an additional payment of \$1,250 per month and an annual stock option grant of 5,000 shares. In addition, directors are also reimbursed for reasonable out-of-pocket expenses incurred by them in attending such meetings.

*Equity Compensation*

Upon first becoming a director, each non-employee director is automatically granted a nonstatutory stock option to purchase 15,000 shares of the Company's Common Stock under the Company's 2008 Equity Incentive Plan, with such option vesting ratably over a thirty-six (36) month period following the date of grant. Each year thereafter, each non-employee director is granted an additional nonstatutory stock option to purchase 5,000 shares of the Company's Common Stock, with such option vesting ratably over a 12-month period following the

date of grant. Such options have an exercise price equal to the fair market value of the Company's Common Stock as of the date of grant.

On July 1, 2008, Drs. Garrettson and Hammond and Mr. Fitch each received automatic and non-discretionary grants of nonstatutory stock options to purchase 5,000 shares of the Company's Common Stock under the 2008 EIP as compensation for their services as directors. Dr. Garrettson received an additional grant of 5,000 shares of the Company's Common Stock under the 2008 EIP as compensation for his service as Lead Independent Director. These stock options were granted with an exercise price of \$2.46 per share, are subject to vesting over 12 months, with 1/12th of the shares subject to the option vesting each month following the grant date and have a term of 7 years.

**AUDIT COMMITTEE REPORT**

**General**

The Audit Committee of the Board is responsible for overseeing the accounting and financial reporting processes of the Company and the audits of the Company's financial statements, as well as assisting the Board with overseeing and monitoring the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent accountant's qualifications, independence and performance, and the Company's internal accounting and financial controls.

**Review with Management**

The Audit Committee reviewed and discussed our audited financial statements for the fiscal year ended January 3, 2009, together with the notes thereto, with management, which has primary responsibility for the financial statements. Burr, Pilger & Mayer LLP, our independent registered public accounting firm, is responsible for expressing an opinion on the conformity of the Company's audited financial statements with generally accepted accounting principles.

**Review and Discussions with Independent Registered Public Accounting Firm**

The Audit Committee discussed with Burr, Pilger & Mayer LLP the matters required to be discussed by the Statement on Accounting Standards No. 61 (Communications with Audit Committees), as may be modified or supplemented (Codification of Statements on Auditing Standards), which includes, among other items, matters related to the conduct of the audit of our financial statements.

The Audit Committee also received written disclosures and the letter from Burr, Pilger & Mayer LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with Burr, Pilger & Mayer LLP's independence with them. The Audit Committee also concluded that Burr, Pilger & Mayer LLP's provision of non-audit services to the Company is compatible with Burr, Pilger & Mayer LLP's independence.

**Conclusion**

Based on the review and discussions referred to above, the Audit Committee recommended to the Board that our audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended January 3, 2009 for filing with the SEC.

**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

Sanford Fitch

Garrett A. Garrettson

James B. Hawkins

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**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

On August 31, 2007, the Company entered into a Securities Purchase Agreement with BlueLine Capital Partners ( BlueLine ) pursuant to which it sold to BlueLine units (the Units ), consisting of one share of the Company s Series A Preferred Stock and one warrant to purchase 1.2 shares of the Company s Common Stock (such sale, the BlueLine Financing ). In connection with this transaction the Company issued an aggregate of 500,000 Units at \$10.00 per Unit, resulting in the issuance of 500,000 shares of Series A Preferred Stock, convertible into 1 million shares of Common Stock pursuant to the provisions of the Certificate of Designation filed by the Company in connection with the sale, and warrants (the Initial Warrants ) to purchase an aggregate of 600,000 shares Common Stock at an exercise price of \$0.01 per share. The Initial Warrants were exercisable after August 31, 2007 and were exercised prior to their expiration on December 31, 2007. Pursuant to the Securities Purchase Agreement, BlueLine has the right to designate two individuals for appointment to the Company s Board of Directors, one of which is at BlueLine s discretion and the second of which is subject to the Company s reasonable approval.

The Company also entered into an Investor Rights Agreement with BlueLine, pursuant to which the Company granted BlueLine certain registration rights, including the right to request that the Company file a Form S-3 registration statement within 90 days of becoming eligible to file a Form S-3 registration statement and the right to request the Company file a Form S-1 registration statement any time after February 29, 2008. The parties subsequently amended the Investor Rights Agreement on March 31, 2009, pursuant to which BlueLine Entities waived the Company s obligation to file a registration statement on Form S-3 until such time, on or after June 30, 2009, as the holders of 60% of the Registrable Securities (as defined in the Investor Rights Agreement) request such registration in writing. In order to induce BlueLine to enter into such amendment, the Company issued to BlueLine warrants to purchase an aggregate of 20,000 shares of the Company s Common Stock at an exercise price of \$0.01 per share (the Amendment Warrants and, together with the Initial Warrants, the Warrants ). The parties also amended the Investor Rights Agreement so as to include the shares of Common Stock issuable upon exercise of the Amendment Warrants in the shares eligible for registration under the Investor Rights Agreement. The Amendment Warrants were exercised on April 2, 2009.

The BlueLine Financing and the issuances of the Warrants were completed through private placements to accredited investors and were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the Securities Act ). The shares of the Series A Preferred Stock, together with the shares of the Common Stock issuable upon the conversion of the Series A Preferred Stock, and the Warrants, together with the shares of the Common Stock issued or issuable upon the exercise of the Warrants, have not been registered under the Securities Act or any state securities laws. Unless so registered, such securities may not be offered or sold in the United States absent an exemption from, or in a transaction not subject to, the registration requirement of the Securities Act and any applicable state securities laws.

Other than the transactions with BlueLine described above, since the beginning of the Company s last fiscal year, there has not been nor is there currently proposed any transaction or series of similar transactions to which the Company was or is to be a party in which the amount involved exceeds \$120,000 and in which any director, executive officer, holder of more than 5% of the Common Stock of the Company or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest, other than indemnification agreements between the Company and each of its directors and officers.

**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires the Company s executive officers and directors, and persons who own more than 10% of a registered class of the Company s equity securities to file reports of ownership and changes in ownership with the SEC and the National Association of Securities Dealers, Inc. Such executive officers, directors and greater than 10% stockholders are also required by SEC rules to furnish the Company with

copies of all forms that they file pursuant to Section 16(a). Specific due dates have been established by the SEC, and the Company is required to disclose in this Proxy Statement any failure to file by those dates. Based solely on its review of the copies of such forms received by it, and written representations from certain reporting persons that no filings were required for such persons, the Company is not aware of any late Section 16(a) filings during the Company's 2008 fiscal year.



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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information known to the Company regarding the beneficial ownership of the Company's Common Stock as of April 1, 2009 by (i) each person (or group of affiliated persons) who is the beneficial owner of more than 5% of the Company's Common Stock, (ii) each director and nominee for director, (iii) each of the Company's executive officers named in the Summary Compensation Table appearing herein, and (iv) all of the Company's directors and executive officers as a group.

<b>5% Stockholders, Directors and Officers (1)</b>	<b>Beneficial Ownership - as of April 1, 2009</b>	
	<b>Number of Shares (2)</b>	<b>Percent of Total (2)</b>
BlueLine Partners, L.L.C. (3)	2,511,000	28.5%
Paragon Associates II Joint Venture (4)	750,000	8.5%
Kennedy Capital Management, Inc. (5)	506,086	5.7%
Black River Asset Management LLC (6)	470,000	5.3%
<b>Directors</b>		
James L. Donovan (7)	112,563	1.27%
Sanford Fitch (8)	44,000	*
Garrett A. Garrettson (9)	44,000	*
Donald L. Hammond (10)	70,000	*
James B. Hawkins (11)	8,333	*
William M. Moore (12)	45,066	*
<b>Named Executive Officers</b>		
Theodore A. Boutacoff (13)	297,693	3.32%
James Mackaness (14)	35,646	*
Eduardo Arias (15)	213,319	2.40%
All directors and executive officers as a group (9 persons) (16)	870,620	9.47%

\* Represents less than 1% of the total.

- (1) Unless otherwise indicated in the table, the address for each listed person is c/o IRIDEX Corporation, 1212 Terra Bella, Mountain View, CA 94043.
- (2) The number and percentage of shares beneficially owned is determined under rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days of March 31, 2009, through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes, each person has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares shown as beneficially owned. Percentage beneficially owned is based on 8,824,301 shares of common stock outstanding on April 1, 2009.
- (3) Includes shares owned by: BlueLine Capital Partners, L.P., BlueLine Capital Partners II, LLC, BlueLine Capital Partners III, LP, BlueLine Catalyst Fund VIII, L.P. and BlueLine Partners, L.L.C., together ( BlueLine Partners ). BlueLine Partners is located at 402 Railroad Ave., Suite 201, Danville, CA 94526. These securities are owned by BlueLine Catalyst Fund IX, L.P., who is a member of a group with BlueLine Capital Partners I, L.P., BlueLine Capital Partners II, L.P., BlueLine Capital Partners III, L.P., BlueLine Catalyst Fund VIII, L.P., BlueLine Partners, L.L.C. and BlueLine Partners II, L.L.C. BlueLine Partners, L.L.C. is the sole general partner of BlueLine Catalyst Fund IX, L.P.
- (4) Reflects 750,000 shares of Common Stock held of record by Paragon Associates and Paragon Associates II Joint Venture ( Paragon JV ); Bradbury Dyer III, as the authorized agent of Paragon JV, has the power to vote and dispose of the 750,000 shares of Common Stock held by Paragon JV. This information was obtained from a filing made with the SEC pursuant to Rule 13d-1 of the Exchange Act on February 10, 2009.
- (5) Black River Asset Management LLC is located 12700 Whitewater Drive, Minnetonka, MN 553443. This information was obtained from a filing made with the SEC pursuant to Rule 13d-1 of the Exchange Act on February 17, 2009.

- (6) Black River Long/Short Fund Ltd. is located at P.O. Box 309GT, Ugland House South Church Street, George Town, Grand Cayman, Cayman Islands. This information was obtained from a filing made with the SEC pursuant to Rule 13d-1 of the Exchange Act on February 17, 2009.
- (7) Includes 29,843 shares subject to options that are exercisable within 60 days of April 1, 2009.
- (8) Includes 30,000 shares subject to options that are exercisable within 60 days of April 1, 2009.
- (9) Includes 35,000 shares subject to options that are exercisable within 60 days of April 1, 2009.
- (10) Includes 41,250 shares subject to options that are exercisable within 60 days of April 1, 2009.
- (11) Includes 8,333 shares subject to options that are exercisable within 60 days of April 1, 2009.
- (12) Includes 9,166 shares subject to options that are exercisable within 60 days of April 1, 2009.
- (13) Includes 138,646 shares subject to options that are exercisable within 60 days of April 1, 2009. Mr. Boutacoff is also a member of the Board of Directors.
- (14) Includes 33,646 shares subject to options that are exercisable within 60 days of April 1, 2009.
- (15) Includes 46,394 shares subject to options that are exercisable within 60 days of April 1, 2009.
- (16) Includes 372,278 shares subject to options that are exercisable within 60 days of April 1, 2009.

**OTHER MATTERS**

The Board of Directors does not know of any other matters to be presented at this meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the enclosed form of Proxy to vote the shares they represent as the Board may recommend.

THE BOARD OF DIRECTORS

Dated: May 4, 2009

**IRIDEX CORPORATION**  
**2008 EQUITY INCENTIVE PLAN**  
**(as amended April 30, 2009)**

1. *Purposes of the Plan.* The purposes of this Plan are:

to attract and retain the best available personnel for positions of substantial responsibility,

to provide incentives to individuals who perform services to the Company, and

to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units, Performance Shares and other stock or cash awards as the Administrator may determine.

2. *Definitions.* As used herein, the following definitions will apply:

(a) *Administrator* means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) *Affiliate* means any corporation or any other entity (including, but not limited to, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.

(c) *Applicable Laws* means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(d) *Award* means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units, Performance Shares and other stock or cash awards as the Administrator may determine.

(e) *Award Agreement* means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(f) *Board* means the Board of Directors of the Company.

(g) *Cash Position* means as to any Performance Period, the Company's level of cash, cash equivalents, available-for-sales securities, and the long term portion of available-for-sales securities.

(h) *Change in Control* means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group, ( *Person* ) acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection (i), the acquisition of additional stock by any one Person, who is considered to own more than 50% of the total voting power of the stock of the Company will not be considered a Change in Control; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to effectively

control the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this Section 2(h), persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

(i) *Code* means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(j) *Committee* means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(k) *Common Stock* means the common stock of the Company.

(l) *Company* means IRIDEX Corporation a Delaware corporation, or any successor thereto.

(m) *Consultant* means any person, including an advisor, engaged by the Company or its Affiliates to render services to such entity.

(n) *Determination Date* means the latest possible date that will not jeopardize the qualification of an Award granted under the Plan as performance-based compensation under Section 162(m) of the Code.

(o) *Director* means a member of the Board.

(p) *Disability* means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(q) *Earnings Per Share* means as to any Performance Period, the Company's or a business unit's Net Income, divided by a weighted average number of Common Stock outstanding and dilutive common equivalent Shares deemed outstanding.

(r) *Employee* means any person, including Officers and Directors, employed by the Company or its Affiliates. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute employment by the Company.

(s) *Exchange Act* means the Securities Exchange Act of 1934, as amended.

(t) *Fair Market Value* means, as of any date, the value of the Common Stock as the Administrator may determine in good faith by reference to the price of such stock on any established stock exchange or a

national market system on the day of determination if the Common Stock is so listed on any established stock exchange or a national market system. If the Common Stock is not listed on any established stock exchange or a national market system, the value of the Common Stock will be determined as the Administrator may determine in good faith.

(u) *Fiscal Year* means the fiscal year of the Company.

(v) *Incentive Stock Option* means an Option that by its terms qualifies and is otherwise intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(w) *Individual Objectives* means as to a Participant for any Performance Period, the objective and measurable goals set by a management by objectives process and approved by the Administrator (in its discretion).

(x) *Net Income* means as to any Performance Period, the Company's or a business unit's income after taxes.

(y) *Nonstatutory Stock Option* means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(z) *Officer* means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(aa) *Operating Cash Flow* means as to any Performance Period, the Company's or a business unit's sum of Net Income plus depreciation and amortization plus changes in working capital comprised of accounts receivable, inventories, other current assets, trade accounts payable, accrued expenses, product warranty, advance payments from customers and long-term accrued expenses.

(bb) *Operating Income* means as to any Performance Period, the Company's or a business unit's income from operations but excluding any unusual items or non-operating or non-cash related expenses.

(cc) *Option* means a stock option granted pursuant to Section 6 of the Plan.

(dd) *Parent* means a parent corporation, whether now or hereafter existing, as defined in Section 424(e) of the Code.

(ee) *Participant* means the holder of an outstanding Award.

(ff) *Performance Goals* will have the meaning set forth in Section 11 of the Plan.

(gg) *Performance Period* means any Fiscal Year or such other period as determined by the Administrator in its sole discretion.

(hh) *Performance Share* means an Award denominated in Shares which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine pursuant to Section 10.

(ii) *Performance Unit* means an Award which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.

(jj) *Period of Restriction* means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.

(kk) *Plan* means this 2008 Equity Incentive Plan.

(ll) *Restricted Stock* means Shares issued pursuant to an Award of Restricted Stock under Section 8 of the Plan, or issued pursuant to the early exercise of an Option.

- (mm) *Restricted Stock Unit* means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 9. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.
- (nn) *Return on Assets* means as to any Performance Period, the percentage equal to the Company's or a business unit's Operating Income, divided by average net Company or business unit, as applicable, assets.
- (oo) *Return on Equity* means as to any Performance Period, the percentage equal to the Company's Net Income divided by average stockholder's equity.
- (pp) *Return on Sales* means as to any Performance Period, the percentage equal to the Company's or a business unit's Operating Income, divided by the Company's or the business unit's, as applicable, revenue.
- (qq) *Revenue* means as to any Performance Period, the Company's or business unit's net sales.
- (rr) *Rule 16b-3* means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.
- (ss) *Section 16(b)* means Section 16(b) of the Exchange Act.
- (tt) *Service Provider* means an Employee, Director, or Consultant.
- (uu) *Share* means a share of the Common Stock, as adjusted in accordance with Section 14 of the Plan.
- (vv) *Stock Appreciation Right* means an Award, granted alone or in connection with an Option, that pursuant to Section 7 is designated as a Stock Appreciation Right.
- (ww) *Subsidiary* means a subsidiary corporation, whether now or hereafter existing, as defined in Section 424(f) of the Code.
- (xx) *Total Stockholder Return* means as to any Performance Period, the total return (change in share price plus reinvestment of any dividends) of a Share.

### 3. Stock Subject to the Plan.

- (a) Subject to the provisions of Section 14 of the Plan, the maximum aggregate number of Shares that may be awarded and sold under the Plan is 300,000 Shares, plus any Shares subject to stock options or similar awards granted under the Company's 1998 Stock Plan (the "1998 Plan") that expire or otherwise terminate without having been exercised in full and Shares issued pursuant to awards granted under the 1998 Plan that are forfeited to or repurchased by the Company on or after the date the 1998 Plan expires, with the maximum number of Shares to be added to the Plan from the 1998 Plan to be no more than 1,367,361 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.
- (b) *Full Value Awards.* Any Shares subject to Options or Stock Appreciation Rights will be counted against the numerical limits of this Section 3 as one Share for every Share subject thereto. Any Shares subject to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units with a per share or unit purchase price lower than 100% of Fair Market Value on the date of grant will be counted against the numerical limits of this Section 3 as two (2) Shares for every one Share subject thereto. To the extent that a Share that was subject to an Award that counted as two (2) Shares against the Plan reserve pursuant to the preceding sentence is recycled back into the Plan under the next paragraph of this Section 3, the Plan will be credited with two (2) Shares.
- (c) *Lapsed Awards.* If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units, is forfeited to or repurchased by the Company, the unpurchased Shares (or for Awards other than Options and Stock Appreciation Rights, the forfeited or repurchased Shares) which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). Upon exercise of a Stock Appreciation Right settled in Shares, the gross number of Shares covered by the portion of the Award so

exercised will cease to be available under the Plan. Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if unvested Shares of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the tax and/or exercise price of an Award will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not reduce the number of Shares available for issuance under the Plan. Notwithstanding the foregoing provisions of this Section 3(c), subject to adjustment provided in Section 14, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code, any Shares that become available for issuance under the Plan under this Section 3(c).

(d) *Share Reserve.* The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

#### 4. Administration of the Plan.

##### (a) Procedure.

(i) *Multiple Administrative Bodies.* Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) *Section 162(m).* To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as performance-based compensation within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two (2) or more outside directors within the meaning of Section 162(m) of the Code.

(iii) *Rule 16b-3.* To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) *Other Administration.* Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) *Powers of the Administrator.* Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder;

(iv) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(v) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;

(vi) to modify or amend each Award (subject to Section 19(c) of the Plan). Notwithstanding the previous sentence, the Administrator may not, without the approval of the Company's stockholders: (A) modify or amend an Option or Stock Appreciation Right to reduce the exercise price of such Option or Stock Appreciation Right after it has been granted (except for adjustments made pursuant to Section 14), or (B) cancel any outstanding Option or Stock Appreciation Right and replace it with a new Option or Stock Appreciation Right with a lower exercise price;



(vii) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(viii) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award pursuant to such procedures as the Administrator may determine; and

(ix) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) *Effect of Administrator's Decision.* The Administrator's decisions, determinations, and interpretations will be final and binding on all Participants and any other holders of Awards.

5. *Eligibility.* Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units as the Administrator determines may be granted to Service Providers. Incentive Stock Options may be granted only to Employees of the Company or any Parent or Subsidiary of the Company.

6. *Stock Options.*

(a) *Limitations.*

(i) Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000 (U.S.), such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(ii) The Administrator will have complete discretion to determine the number of Shares subject to an Option granted to any Participant, provided that during any Fiscal Year, no Participant will be granted an Option covering more than 200,000 Shares. Notwithstanding the limitation in the previous sentence, in connection with his or her initial service as an Employee, an Employee may be granted Options covering up to an additional 400,000 Shares.

(b) *Term of Option.* The Administrator will determine the term of each Option in its sole discretion; provided, however, that the term will be no more than ten (10) years from the date of grant thereof. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(c) *Option Exercise Price and Consideration.*

(i) *Exercise Price.* The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, but will be no less than 100% of the Fair Market Value per Share on the date of grant. In addition, in the case of an Incentive Stock Option granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than 110% of the Fair Market Value per Share on the date of grant. Notwithstanding the foregoing provisions of this Section 6(c), Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) *Waiting Period and Exercise Dates.* At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) *Form of Consideration.* The Administrator will determine the acceptable form(s) of consideration for exercising an Option, including the method of payment, to the extent permitted by Applicable Laws.

(d) *Exercise of Option.*

(i) *Procedure for Exercise; Rights as a Stockholder.* Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) notice of exercise (in such form as the Administrator specifies from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with any applicable withholding taxes). No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 14 of the Plan.

(ii) *Termination of Relationship as a Service Provider.* If a Participant ceases to be a Service Provider, other than upon the Participant's termination as the result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) *Disability of Participant.* If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) *Death of Participant.* If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(v) *Other Termination.* A Participant's Award Agreement may also provide that if the exercise of the Option following the termination of Participant's status as a Service Provider (other than upon the Participant's death or Disability) would result in liability under Section 16(b), then the Option will terminate on the earlier of (A) the expiration of the term of the Option set forth in the Award Agreement, or (B) the 10th day after the last date on which such exercise would result in such liability under Section 16(b). Finally, a Participant's Award Agreement may also provide that if the exercise of the Option following the termination of the Participant's status as a Service Provider (other than upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of Shares would violate the registration requirements under the Securities Act, then the Option will terminate on the earlier of (A) the expiration of the term of the Option, or (B) the expiration of a period of three (3) months after the termination of the Participant's status as a Service Provider during which the exercise of the Option would not be in violation of such registration requirements.

#### 7. *Stock Appreciation Rights.*

(a) *Grant of Stock Appreciation Rights.* Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) *Number of Shares.* The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Participant, provided that during any Fiscal Year, no Participant will be granted Stock Appreciation Rights covering more than 200,000 Shares. Notwithstanding the limitation in the previous sentence, in connection with his or her initial service as an Employee, an Employee may be granted Stock Appreciation Rights covering up to an additional 400,000 Shares.

(c) *Exercise Price and Other Terms.* The Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan, provided, however, that the exercise price will be not less than 100% of the Fair Market Value of a Share on the date of grant.

(d) *Stock Appreciation Right Agreement.* Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) *Expiration of Stock Appreciation Rights.* A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement; provided, however, that the term will be no more than ten (10) years from the date of grant thereof. Notwithstanding the foregoing, the rules of Section 6(d) also will apply to Stock Appreciation Rights.

(f) *Payment of Stock Appreciation Right Amount.* Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

- (i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times
- (ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

#### 8. *Restricted Stock.*

(a) *Grant of Restricted Stock.* Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) *Restricted Stock Agreement.* Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Notwithstanding the foregoing sentence, for restricted stock intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, during any Fiscal Year no Participant will receive more than an aggregate of 150,000 Shares of Restricted Stock. Notwithstanding the foregoing limitation, in connection with his or her initial service as an Employee, for restricted stock intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, an Employee may be granted an aggregate of up to an additional 150,000 Shares of Restricted Stock. Unless the Administrator determines otherwise, Shares of Restricted Stock will be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

(c) *Transferability.* Except as provided in this Section 8, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) *Other Restrictions.* The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) *Removal of Restrictions.* Except as otherwise provided in this Section 8, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) *Voting Rights.* During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) *Dividends and Other Distributions.* During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) *Return of Restricted Stock to Company.* On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

(i) *Section 162(m) Performance Restrictions.* For purposes of qualifying grants of Restricted Stock as performance-based compensation under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator on or before the Determination Date. In granting Restricted Stock which is intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

#### 9. *Restricted Stock Units.*

(a) *Grant.* Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. Each Restricted Stock Unit grant will be evidenced by an Award Agreement that will specify such other terms and conditions as the Administrator, in its sole discretion, will determine, including all terms, conditions, and restrictions related to the grant, the number of Restricted Stock Units and the form of payout, which, subject to Section 9(d), may be left to the discretion of the Administrator. Notwithstanding anything to the contrary in this subsection (a), for Restricted Stock Units intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, during any Fiscal Year of the Company, no Participant will receive more than an aggregate of 150,000 Restricted

Stock Units. Notwithstanding the limitation in the previous sentence, for Restricted Stock Units intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, in connection with his or her initial service as an Employee, an Employee may be granted an aggregate of up to an additional 150,000 Restricted Stock Units.

(b) *Vesting Criteria and Other Terms.* The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. After the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any restrictions for such Restricted Stock Units. Each Award of Restricted Stock Units will be evidenced by an Award Agreement that will specify the vesting criteria, and such other terms and conditions as the Administrator, in its sole discretion will determine. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(c) *Earning Restricted Stock Units.* Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as specified in the Award Agreement.

(d) *Form and Timing of Payment.* Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) set forth in the Award Agreement. The Administrator, in its sole discretion, may pay earned Restricted Stock Units in cash, Shares, or a combination thereof. Shares represented by Restricted Stock Units that are fully paid in cash again will be available for grant under the Plan.

(e) *Cancellation.* On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

(f) *Section 162(m) Performance Restrictions.* For purposes of qualifying grants of Restricted Stock Units as performance-based compensation under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator on or before the Determination Date. In granting Restricted Stock Units which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

#### 10. *Performance Units and Performance Shares.*

(a) *Grant of Performance Units/Shares.* Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units/Shares granted to each Participant provided that during any Fiscal Year, for Performance Units or Performance Shares intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, (i) no Participant will receive Performance Units having an initial value greater than \$1,000,000, and (ii) no Participant will receive more than 150,000 Performance Shares. Notwithstanding the foregoing limitation, for Performance Shares intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, in connection with his or her initial service, a Service Provider may be granted up to an additional 150,000 Performance Shares.

(b) *Value of Performance Units/Shares.* Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) *Performance Objectives and Other Terms.* The Administrator will set performance objectives or other vesting provisions. The Administrator may set vesting criteria based upon the achievement of Company-wide, business unit, or individual goals (including, but not limited to, continued employment), or any other basis determined by the Administrator in its discretion. Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. After the grant of Performance

Units/Shares, the Administrator, in its sole discretion, may reduce or waive any restrictions for such Awards.

(d) *Earning of Performance Units/Shares.* After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) *Form and Timing of Payment of Performance Units/Shares.* Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) *Cancellation of Performance Units/Shares.* On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

(g) *Section 162(m) Performance Restrictions.* For purposes of qualifying grants of Performance Units/Shares as performance-based compensation under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals will be set by the Administrator on or before the Determination Date. In granting Performance Units/Shares which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goals).

#### 11. *Performance-Based Compensation Under Code Section 162(m).*

(a) *General.* If the Administrator, in its discretion, decides to grant an Award intended to qualify as performance-based compensation under Code Section 162(m), the provisions of this Section 11 will control over any contrary provision in the Plan; provided, however, that the Administrator may in its discretion grant Awards that are not intended to qualify as performance-based compensation under Section 162(m) of the Code to such Participants that are based on Performance Goals or other specific criteria or goals but that do not satisfy the requirements of this Section 11.

(b) *Performance Goals.* The granting and/or vesting of Awards of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units and other incentives under the Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Code Section 162(m) and may provide for a targeted level or levels of achievement ( *Performance Goals* ) including (i) Cash Position, (ii) Earnings Per Share, (iii) Individual Objectives, (iv) Net Income, (v) Operating Cash Flow, (vi) Operating Income, (vii) Return on Assets, (viii) Return on Equity, (ix) Return on Sales, (x) Revenue, and (xi) Total Stockholder Return. Any Performance Goals may be used to measure the performance of the Company as a whole or a business unit of the Company and may be measured relative to a peer group or index. The Performance Goals may differ from Participant to Participant and from Award to Award. Prior to the Determination Date, the Administrator will determine whether any significant element(s) will be included in or excluded from the calculation of any Performance Goal with respect to any Participant.

(c) *Procedures.* To the extent necessary to comply with the performance-based compensation provisions of Code Section 162(m), with respect to any Award granted subject to Performance Goals, within the first twenty-five percent (25%) of the Performance Period, but in no event more than ninety (90) days following the commencement of any Performance Period (or such other time as may be required or permitted by Code Section 162(m)), the Administrator will, in writing, (i) designate one or more Participants to whom an Award will be made, (ii) select the Performance Goals applicable to the

Performance Period, (iii) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (iv) specify the relationship between Performance Goals and the amounts of such Awards, as applicable, to be earned by each Participant for such Performance Period. Following the completion of each Performance Period, the Administrator will certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amounts earned by a Participant, the Administrator will have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Administrator may deem relevant to the assessment of individual or corporate performance for the Performance Period. A Participant will be eligible to receive payment pursuant to an Award for a Performance Period only if the Performance Goals for such period are achieved.

(d) *Additional Limitations.* Notwithstanding any other provision of the Plan, any Award which is granted to a Participant and is intended to constitute qualified performance based compensation under Code Section 162(m) will be subject to any additional limitations set forth in the Code (including any amendment to Section 162(m)) or any regulations and ruling issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m) of the Code, and the Plan will be deemed amended to the extent necessary to conform to such requirements.

12. *Leaves of Absence.* Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Service Provider will not cease to be an Employee in the case of (i) any leave of absence approved by the Company, or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months and one day following the commencement of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

13. *Transferability of Awards.* Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

14. *Adjustments; Dissolution or Liquidation; Merger or Change in Control.*

(a) *Adjustments.* In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, and the numerical Share limits set forth in Sections 3, 6, 7, 8, 9, and 10.

(b) *Dissolution or Liquidation.* In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) *Change in Control.* In the event of a merger or Change in Control, each outstanding Award will be treated as the Administrator determines, including, without limitation, that each Award will be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation (the *Successor Corporation*). The Administrator will not be required to treat all Awards similarly in the transaction.

In the event that the Successor Corporation does not assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock will lapse, and, with respect to Restricted Stock Units, Performance Shares and Performance Units, all Performance Goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted for in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) or, in the case of a Stock Appreciation Right upon the exercise of which the Administrator determines to pay cash or a Performance Share or Performance Unit which the Administrator can determine to pay in cash, the fair market value of the consideration received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the Successor Corporation, the Administrator may, with the consent of the Successor Corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Performance Share or Performance Unit, for each Share subject to such Award (or in the case of Performance Units, the number of implied shares determined by dividing the value of the Performance Units by the per share consideration received by holders of Common Stock in the Change in Control), to be solely common stock of the Successor Corporation equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 14(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more Performance Goals will not be considered assumed if the Company or its successor modifies any of such Performance Goals without the Participant's consent; provided, however, a modification to such Performance Goals only to reflect the Successor Corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

#### 15. *Tax Withholding*

(a) *Withholding Requirements.* Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

(b) *Withholding Arrangements.* The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (i) paying cash, (ii) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum amount required to be withheld, (iii) delivering to the Company already-owned Shares having a Fair Market Value equal to the amount required to be withheld, or (iv) selling a sufficient number of Shares otherwise deliverable to the Participant through such means as the Administrator may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. The amount of the withholding requirement will be deemed to include any amount which the Administrator agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on



the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

16. *No Effect on Employment or Service.* Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

17. *Date of Grant.* The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

18. *Effective Date and Term of Plan.* The Plan will become effective upon the date the stockholders of the Company approve the Plan. The Company will obtain such stockholder approval in the manner and to the degree required under Applicable Laws. It will continue in effect for a term of ten (10) years from the date of stockholder approval, unless terminated earlier under Section 19 of the Plan.

19. *Amendment and Termination of the Plan.*

(a) *Amendment and Termination.* The Administrator may at any time amend, alter, suspend or terminate the Plan.

(b) *Stockholder Approval.* The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) *Effect of Amendment or Termination.* No amendment, alteration, suspension, or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

20. *Conditions Upon Issuance of Shares.*

(a) *Legal Compliance.* Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) *Investment Representations.* As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

21. *Inability to Obtain Authority.* The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

22. *Underwater Stock Option Exchange Program.* Notwithstanding any contrary provision of the Plan, if the Company's stockholders approve the one-time-only option exchange program described in the proxy statement with respect to the Company's 2009 Annual Meeting of Stockholders under which certain outstanding Options may be surrendered or cancelled at the election of the person holding such Option (and therefore made available for future grant under Section 3(c)) in exchange for a lesser number of Options with a lower exercise price (the Exchange), the Administrator may provide for, and the Company may implement, the Exchange within twelve (12) months after the date of such Annual Meeting.

**IRIDEX CORPORATION**

**1998 STOCK PLAN**

**(As amended April 30, 2009)**

1. *Purposes of the Plan.* The purposes of this Stock Plan are:

to attract and retain the best available personnel for positions of substantial responsibility,

to provide additional incentive to Employees, Directors and Consultants, and

to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units, as the Administrator may determine.

2. *Definitions.* As used herein, the following definitions shall apply:

(a) *Administrator* means the Board or any of its Committees as shall be administering the Plan, in accordance with Section 4 of the Plan.

(b) *Affiliate* means any corporation or any other entity (including, but not limited to, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.

(c) *Applicable Laws* means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(d) *Award* means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units and Performance Shares as the Administrator may determine.

(e) *Award Agreement* means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan, which shall include an Option Agreement. The Award Agreement is subject to the terms and conditions of the Plan.

(f) *Board* means the Board of Directors of the Company.

(g) *Cash Position* means as to any Performance Period, the Company's level of cash, cash equivalents, available-for-sales securities, and the long term portion of available-for-sales securities.

(h) *Code* means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(i) *Committee* means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(j) *Common Stock* means the common stock of the Company.

(k) *Company* means IRIDEX Corporation, a Delaware corporation, or any successor thereto.

(l) *Consultant* means any person, including an advisor, engaged by the Company or its Affiliate to render services to such entity.

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(m) *Determination Date* means the latest possible date that will not jeopardize the qualification of an Award granted under the Plan as performance-based compensation under Section 162(m) of the Code.

- (n) *Director* means a member of the Board.
- (o) *Disability* means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.
- (p) *Earnings Per Share* means as to any Performance Period, the Company's or a business unit's Net Income, divided by a weighted average number of Common Stock outstanding and dilutive common equivalent Shares deemed outstanding.
- (q) *Employee* means any person, including Officers and Directors, employed by the Company or its Affiliates. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute employment by the Company.
- (r) *Exchange Act* means the Securities Exchange Act of 1934, as amended.
- (s) *Fair Market Value* means, as of any date, the value of Common Stock as the Administrator may determine in good faith by reference to the price of such stock on any established stock exchange or a national market system on the day of determination if the Common Stock is so listed on any established stock exchange or a national market system. If the Common Stock is not listed on any established stock exchange or a national market system, the value of the Common Stock as the Administrator may determine in good faith.
- (t) *Fiscal Year* means the fiscal year of the Company.
- (u) *Incentive Stock Option* means an Option that by its terms qualifies and is otherwise intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.
- (v) *Individual Objectives* means as to a Participant for any Performance Period, the objective and measurable goals set by a management by objectives process and approved by the Administrator (in its discretion).
- (w) *Net Income* means as to any Performance Period, the Company's or a business unit's income after taxes.
- (x) *Nonstatutory Stock Option* means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.
- (y) *Officer* means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (z) *Operating Cash Flow* means as to any Performance Period, the Company's or a business unit's sum of Net Income plus depreciation and amortization plus changes in working capital comprised of accounts receivable, inventories, other current assets, trade accounts payable, accrued expenses, product warranty, advance payments from customers and long-term accrued expenses.
- (aa) *Operating Income* means as to any Performance Period, the Company's or a business unit's income from operations but excluding any unusual items or non-operating or non-cash related expenses.
- (bb) *Option* means a stock option granted pursuant to the Plan.
- (cc) *Option Agreement* means an agreement between the Company and a Participant evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.
- (dd) *Optioned Stock* means the Common Stock subject to an Award

- (ee) *Parent* means a parent corporation, whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (ff) *Participant* means the holder of an outstanding Award, which shall include an Optionee.
- (gg) *Performance Goals* means the goal(s) (or combined goal(s)) determined by the Administrator (in its discretion) to be applicable to a Participant with respect to an Award. As determined by the Administrator, the Performance Goals applicable to an Award may provide for a targeted level or levels of achievement using one or more of the following measures: (a) Cash Position, (b) Earnings Per Share, (c) Individual Objectives, (d) Net Income, (e) Operating Cash Flow, (f) Operating Income, (g) Return on Assets, (h) Return on Equity, (i) Return on Sales, (j) Revenue, and (k) Total Stockholder Return. The Performance Goals may differ from Participant to Participant and from Award to Award. Prior to the Determination Date, the Administrator shall determine whether any significant element(s) shall be included in or excluded from the calculation of any Performance Goal with respect to any Participant. For example (but not by way of limitation), the Administrator may determine that the measures for one or more Performance Goals shall be based upon the Company's pro-forma results and/or results in accordance with generally accepted accounting principles.
- (hh) *Performance Period* means any Fiscal Year or such other period as determined by the Administrator in its sole discretion.
- (ii) *Performance Share* means an Award denominated in Shares which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine pursuant to Section 10.
- (jj) *Performance Unit* means an Award which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.
- (kk) *Plan* means this 1998 Stock Plan, as amended and restated.
- (ll) *Restricted Stock* means Shares issued pursuant to a Restricted Stock award under Section 8 of the Plan, or issued pursuant to the early exercise of an Option.
- (mm) *Restricted Stock Unit* means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 9. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.
- (nn) *Return on Assets* means as to any Performance Period, the percentage equal to the Company's or a business unit's Operating Income, divided by average net Company or business unit, as applicable, assets.
- (oo) *Return on Equity* means as to any Performance Period, the percentage equal to the Company's Net Income divided by average stockholder's equity.
- (pp) *Return on Sales* means as to any Performance Period, the percentage equal to the Company's or a business unit's Operating Income, divided by the Company's or the business unit's, as applicable, revenue.
- (qq) *Revenue* means as to any Performance Period, the Company's or business unit's net sales.
- (rr) *Rule 16b-3* means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.
- (ss) *Section 16(b)* means Section 16(b) of the Exchange Act.
- (tt) *Service Provider* means an Employee, Director or Consultant.
- (uu) *Share* means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.
- (vv) *Stock Appreciation Right* means an Award, granted alone or in connection with an Option, that pursuant to Section 7 is designated as a Stock Appreciation Right.

(ww) *Subsidiary* means a subsidiary corporation, whether now or hereafter existing, as defined in Section 424(f) of the Code.

(xx) *Total Stockholder Return* means as to any Performance Period, the total return (change in Share price plus reinvestment of any dividends) of a Share.

### 3. *Stock Subject to the Plan.*

(a) *Stock Subject to the Plan.* Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is two million one hundred and fifty thousand (2,150,000) Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) *Full Value Awards.* Any Shares subject to Options or Stock Appreciation Rights will be counted against the numerical limits of this Section 3 as one Share for every Share subject thereto. Any Shares subject to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units with a per share or unit purchase price lower than 100% of Fair Market Value on the date of grant will be counted against the numerical limits of this Section 3 as two (2) Shares for every one Share subject thereto. To the extent that a Share that was subject to an Award that counted as two (2) Shares against the Plan reserve pursuant to the preceding sentence is recycled back into the Plan under the next paragraph of this Section 3, the Plan will be credited with two (2) Shares.

(c) *Lapsed Awards.* If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units, is forfeited to or repurchased by the Company, the unpurchased Shares (or for Awards other than Options and Stock Appreciation Rights, the forfeited or repurchased shares) which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to Stock Appreciation Rights, Shares actually issued pursuant to a Stock Appreciation Right as well as the Shares that represent payment of the exercise price will cease to be available under the Plan. Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares subject to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the exercise price of an Option will not become available for future grant or sale under the Plan. Shares used to satisfy tax withholding obligations will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not reduce the number of Shares available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment provided in Section 13, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code, any Shares that become available for issuance under the Plan under this Section 3(c).

(d) *Share Reserve.* The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

### 4. *Administration of the Plan.*

(a) *Procedure.*

(i) *Multiple Administrative Bodies.* The Plan may be administered by different Committees with respect to different groups of Service Providers.

(ii) *Section 162(m).* To the extent that the Administrator determines it to be desirable to qualify Options granted hereunder as performance-based compensation within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more outside directors within the meaning of Section 162(m) of the Code.

(iii) *Rule 16b-3*. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) *Other Administration*. Other than as provided above, the Plan shall be administered by (A) the Board or (B) a Committee, which committee shall be constituted to satisfy Applicable Laws.

(b) *Powers of the Administrator*. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to select the Service Providers to whom Awards may be granted hereunder;

(ii) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder;

(iii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(iv) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;

(v) to modify or amend each Award (subject to Section 21(c) of the Plan) including, without limitation, the discretionary authority to extend the post-termination exercisability period of Awards longer than is otherwise provided for in the Plan. Notwithstanding the previous sentence, the Administrator may not modify or amend an Option or Stock Appreciation Right to reduce the exercise price of such Option or Stock Appreciation Right after it has been granted (except for adjustments made pursuant to Section 16) nor may the Administrator cancel any outstanding Option or Stock Appreciation Right and replace it with a new Option or Stock Appreciation Right with a lower exercise price, unless, in either case, such action is approved by the Company's stockholders;

(vi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(vii) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award pursuant to such procedures as the Administrator may determine; and

(viii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) *Effect of Administrator's Decision*. The Administrator's decisions, determinations and interpretations shall be final and binding on all Participants and any other holders of Awards.

5. *Eligibility*. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units as the Administrator determines may be granted to Service Providers. Incentive Stock Options may be granted only to Employees of the Company or any Parent or Subsidiary of the Company.

6. *Options*.

(a) *Limitations*.

(i) Each Option shall be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as

Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(ii) The following limitations shall apply to grants of Options:

(1) No Service Provider shall be granted, in any Fiscal Year, Options to purchase more than 200,000 Shares.

(2) In connection with his or her initial service, a Service Provider may be granted Options to purchase up to an additional 400,000 Shares which shall not count against the limit set forth in subsection (1) above.

(3) The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 13.

(4) If an Option is cancelled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 13), the cancelled Option will be counted against the limits set forth in subsections (1) and (2) above. For this purpose, if the exercise price of an Option is reduced, the transaction will be treated as a cancellation of the Option and the grant of a new Option.

(b) *Term of Option.* The term of each Option shall be stated in the Award Agreement and shall be seven (7) years from the date of grant or such shorter term as may be provided by the Administrator; provided, however, that in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant or such shorter term as may be provided by the Administrator.

(c) *Option Exercise Price and Consideration.*

(i) *Exercise Price.* The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

a) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

b) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be determined by the Administrator, but will be no less than 100% of the Fair Market Value per Share on the date of grant.

(3) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) *Waiting Period and Exercise Dates.* At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised.

(iii) *Form of Consideration.* The Administrator will determine the acceptable form(s) of consideration for exercising an Option, including the method of payment, to the extent permitted by Applicable Laws.



(d) *Exercise of Option.*

(i) *Procedure for Exercise; Rights as a Stockholder.* Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised together with any applicable withholding taxes. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) *Termination of Relationship as a Service Provider.* If an Participant ceases to be a Service Provider, other than upon the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option shall remain exercisable for three (3) months following the Participant's termination. If, on the date of termination, the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Participant does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(iii) *Disability of Participant.* If an Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option shall remain exercisable for twelve (12) months following the Participant's termination. If, on the date of termination, the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Participant does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(iv) *Death of Participant.* If an Participant dies while a Service Provider, the Option may be exercised within such period of time as is specified in the Award Agreement (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's estate or by a person who acquires the right to exercise the Option by bequest or inheritance, but only to the extent that the Option is vested on the date of death. In the absence of a specified time in the Award Agreement, the Option shall remain exercisable for twelve (12) months following the Participant's termination. If, at the time of death, the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan.

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The Option may be exercised by the executor or administrator of the Participant's estate or, if none, by the person(s) entitled to exercise the Option under the Participant's will or the laws of descent or distribution. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

*7. Stock Appreciation Rights.*

(a) *Grant of Stock Appreciation Rights.* Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) *Number of Shares.* The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Participant, provided that during any Fiscal Year, no Participant will be granted Stock Appreciation Rights covering more than 200,000 Shares. Notwithstanding the foregoing limitation, in connection with a Participant's initial service as an Employee, an Employee may be granted Stock Appreciation Rights covering up to an additional 400,000 Shares.

(c) *Exercise Price and Other Terms.* The Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan, provided, however, that the exercise price will be not less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant.

(d) *Stock Appreciation Right Agreement.* Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) *Expiration of Stock Appreciation Rights.* A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(d) also will apply to Stock Appreciation Rights.

(f) *Payment of Stock Appreciation Right Amount.* Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

*8. Restricted Stock.*

(a) *Grant of Restricted Stock.* Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) *Restricted Stock Agreement.* Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Notwithstanding the foregoing, during any Fiscal Year no Participant will receive more than an aggregate of 150,000 Shares of Restricted Stock; provided, however, that in connection with a Participant's initial service as an Employee, an Employee may be granted an aggregate of up to an additional 150,000 Shares of Restricted Stock. Unless the Administrator determines otherwise, Shares of Restricted Stock will be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

(c) *Transferability.* Except as provided in this Section 8, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the Shares have vested and are no longer subject to a substantial risk of forfeiture.

(d) *Other Restrictions.* The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) *Removal of Restrictions.* Except as otherwise provided in this Section 8, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day the Shares have vested and are no longer subject to a substantial risk of forfeiture. The restrictions will lapse at a rate determined by the Administrator. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) *Voting Rights.* During the period during which Shares of Restricted Stock are unvested and subject to a substantial risk of forfeiture, Service Providers holding such Shares may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) *Dividends and Other Distributions.* During the period during which Shares of Restricted Stock are unvested and subject to substantial risk of forfeiture, Service Providers holding such Shares will be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise Administrator provides otherwise. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) *Return of Restricted Stock to Company.* On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

#### 9. *Restricted Stock Units.*

(a) *Grant.* Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. Each Restricted Stock Unit grant shall be evidenced by an Award Agreement that shall specify such other terms and conditions as the Administrator, in its sole discretion, shall determine, including all terms, conditions, and restrictions related to the grant, the number of Restricted Stock Units and the form of payout, which, subject to Section 9(d), may be left to the discretion of the Administrator. Notwithstanding the anything to the contrary in this subsection (a), during any Fiscal Year, no Participant will receive more than an aggregate of 150,000 Restricted Stock Units; provided, however, that in connection with a Participant's initial service as an Employee, an Employee may be granted an aggregate of up to an additional 150,000 Restricted Stock Units.

(b) *Vesting Criteria and Other Terms.* The Administrator shall set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, business unit, or individual goals (including, but not limited to, continued employment or service), or any other basis determined by the Administrator in its discretion.

(c) *Earning Restricted Stock Units.* Upon meeting the applicable vesting criteria, the Participant shall be entitled to receive a payout as specified in the Restricted Stock Unit Award Agreement. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.

(d) *Form and Timing of Payment.* Payment of earned Restricted Stock Units shall be made as soon as practicable after the date(s) set forth in the Award Agreement. The Administrator, in its sole discretion, may pay earned Restricted Stock Units in cash, Shares, or a combination thereof. Shares represented by Restricted Stock Units that are fully paid in cash again shall be available for grant under the Plan.

(e) *Cancellation.* On the date set forth in the Award Agreement, all unearned Restricted Stock Units shall be forfeited to the Company.

10. *Performance Units and Performance Shares.*

(a) *Grant of Performance Units/Shares.* Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units/Shares granted to each Participant provided that during any Fiscal Year, (a) no Participant will receive Performance Units having an initial value greater than \$1,000,000, and (b) no Participant will receive more than 150,000 Performance Shares. Notwithstanding the foregoing limitation, in connection with a Participant's initial service as an Employee, an Employee may be granted up to an additional 150,000 Performance Shares.

(b) *Value of Performance Units/Shares.* Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) *Performance Objectives and Other Terms.* The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Participant. Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(d) *Earning of Performance Units/Shares.* After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) *Form and Timing of Payment of Performance Units/Shares.* Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) *Cancellation of Performance Units/Shares.* On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

11. *Leaves of Absence.* Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Service Provider will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three (3) months following the 91st day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

12. *Transferability of Awards.* Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If

the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

13. *Adjustments Upon Changes in Capitalization, Dissolution, Merger or Asset Sale.*

(a) *Changes in Capitalization.* Subject to any required action by the stockholders of the Company, the number of shares of Common Stock that have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award, the number of shares of Common Stock as well as the price per share of Common Stock covered by each such outstanding Award, and the numerical Share limits in Sections 6, 7, 8, 9 and 10, shall be proportionately adjusted for any change in, or increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, spin-off, combination or reclassification of the Common Stock, or any other change in, or increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Award.

(b) *Dissolution or Liquidation.* In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Participant as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for a Participant to have the right to exercise his or her Award until ten (10) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Award would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option or reacquisition right applicable to any Restricted Stock shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) *Merger or Asset Sale.* In the event of a merger of the Company with or into another corporation or the sale of all or substantially all of the Company's assets, each outstanding Award will be assumed or an equivalent award substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Performance Shares and Performance Units, all Performance Goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be fully vested and exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the merger or sale of assets, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) or, in the case of a Stock Appreciation Right upon the exercise of which the Administrator determines to pay cash or a Restricted Stock Unit, Performance Share or Performance Unit which the Administrator can determine to pay in cash, the fair market value of the consideration received in the merger or merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the

holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Share or Performance Unit, for each Share subject to such Award (or in the case of Restricted Stock Units or Performance Units, the number of implied shares determined by dividing the value of the Restricted Stock Units or Performance Units, as applicable, by the per share consideration received by holders of Common Stock in the merger or sale of assets), to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

Notwithstanding anything in this Section 13(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more Performance Goals will not be considered assumed if the Company or its successor modifies any of such Performance Goals without the Participant's consent; provided, however, a modification to such Performance Goals only to reflect the successor corporation's post-transaction corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

#### 14. *Tax Withholding*

(a) *Withholding Requirements.* Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

(b) *Withholding Arrangements.* The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (a) paying cash, (b) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the amount required to be withheld, (c) delivering to the Company already-owned Shares having a Fair Market Value equal to the amount required to be withheld, or (d) selling a sufficient number of Shares otherwise deliverable to the Participant through such means as the Administrator may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. The amount of the withholding requirement will be deemed to include any amount which the Administrator agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

15. *No Effect on Employment or Service.* Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

16. *Date of Grant.* The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

17. *Term of Plan.* Subject to Section 21 of the Plan, the Plan shall become effective upon its original adoption by the Board. It shall continue in effect for a term of ten (10) years unless terminated earlier under Section 18 of the Plan.

18. *Amendment and Termination of the Plan.*

(a) *Amendment and Termination.* The Administrator may at any time amend, alter, suspend or terminate the Plan.

(b) *Stockholder Approval.* The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) *Effect of Amendment or Termination.* No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

19. *Conditions Upon Issuance of Shares.*

(a) *Legal Compliance.* Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) *Investment Representations.* As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

20. *Inability to Obtain Authority.* The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

21. *Stockholder Approval.* The Plan shall be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted. Such stockholder approval shall be obtained in the manner and to the degree required under Applicable Laws.

22. *Underwater Stock Option Exchange Program.* Notwithstanding any contrary provision of the Plan, if the Company's stockholders approve the one-time-only option exchange program described in the proxy statement with respect to the Company's 2009 Annual Meeting of Stockholders under which certain outstanding Options may be surrendered or cancelled at the election of the person holding such Option in exchange for a lesser number of Options with a lower exercise price (the Exchange ), the Administrator may provide for, and the Company may implement, the Exchange within twelve (12) months after the date of such Annual Meeting.





