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IRIDEX CORP
Form DEF 14A
April 27, 2001

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SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant [X]
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-11(c) or Rule 14a-12

IRIDEX CORPORATION

(Name of Registrant as Specified in its Charter)

IRIDEX CORPORATION

(Name of Person(s) Filing Proxy Statement)

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:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- Fee paid previously with preliminary materials.

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[] 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:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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IRIDEX CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 6, 2001

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 June 6, 2001 at 2:00 p.m., Pacific Daylight Savings Time, at the Company's principal offices located at 1212 Terra Bella Avenue, Mountain View, California 94043 for the following purposes:

1. To elect seven (7) directors to serve for the ensuing year or until their successors are elected and qualified (Proposal 1);
2. To approve the amendment of the Company's 1998 Stock Plan to increase the number of shares of Common Stock reserved for issuance thereunder by 290,000 shares, from 640,000 shares to 930,000 shares (Proposal 2);
3. To approve the amendment of the Company's 1995 Employee Stock Purchase Plan to increase the number of shares of Common Stock reserved for issuance thereunder by 40,000 shares, from 300,000 shares to 340,000 shares (Proposal 3);
4. To ratify the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending December 29, 2001 (Proposal 4); and
5. To transact such other business as may properly be brought before the meeting and any adjournment(s) thereof.

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Stockholders of record at the close of business on April 13, 2001 shall be entitled to notice of and to vote at the Annual Meeting.

All stockholders are cordially invited to attend the meeting. However, to assure your representation at the meeting, you are urged to mark, sign, date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any stockholder attending the meeting may vote in person even if he or she has returned a proxy.

Sincerely,

Mountain View, California
May 4, 2001

Theodore A. Boutacoff
President and Chief Executive Officer

YOUR VOTE IS IMPORTANT

IN ORDER TO ASSURE YOUR REPRESENTATION AT THE MEETING, YOU ARE REQUESTED TO PROMPTLY COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE OR VOTE BY TELEPHONE OR USING THE INTERNET AS INSTRUCTED ON THE ENCLOSED PROXY CARD.

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IRIDEX CORPORATION
1212 TERRA BELLA AVENUE
MOUNTAIN VIEW, CA 94043

PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

GENERAL

The enclosed 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 offices of the Company located at 1212 Terra Bella Avenue, Mountain View, California 94043 on Wednesday, June 6, 2001 at 2:00 p.m., Pacific Daylight Savings 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 December 30, 2000, including financial statements, were mailed on or about May 4, 2001 to all stockholders entitled to vote at the meeting.

RECORD DATE AND SHARE OWNERSHIP

Stockholders of record at the close of business on April 13, 2001 (the "Record Date") are entitled to notice of and to vote at the meeting and at any adjournment(s) thereof. At the Record Date, 6,730,626 shares of the Company's Common Stock, \$.01 par value, were issued and outstanding and held of record by approximately 86 stockholders.

REVOCABILITY OF PROXIES

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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 Robert Kamenski a written notice of revocation or a duly executed proxy bearing a later date or (b) attending the meeting and voting in person.

VOTING

Each stockholder is entitled to one vote for each share held.

SOLICITATION OF PROXIES

The cost of this solicitation will be borne by the Company. The Company has retained the services of Skinner & Co., Inc. (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 \$3,500 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

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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 telegram.

QUORUM; ABSTENTIONS; BROKER NON-VOTES

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the Inspector of Elections (the "Inspector"). The Inspector will also determine whether or not a quorum is present. Except in certain specific circumstances, the affirmative vote of a majority of shares present in person or represented by proxy at a duly held meeting at which a quorum is present is required under Delaware law and the Company's Bylaws for approval of proposals presented to stockholders. In general, Delaware law also provides that a quorum consists of a majority of shares entitled to vote and present or represented by proxy at the meeting.

When proxies are properly dated, executed and returned, the shares represented by such proxies 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 for (i) the election of the nominees for directors set forth herein; (ii) the approval of an amendment to the Company's 1998 Stock Plan to increase the number of shares reserved for issuance thereunder by 290,000 shares; (iii) the approval of an amendment to the Company's 1995 Employee Stock Purchase Plan to increase the number of shares reserved for issuance thereunder by 40,000 shares; (iv) the ratification of PricewaterhouseCoopers, LLP as independent auditors of the Company for the fiscal year ending December 29, 2001; and (v) 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 "WITHHELD" or "ABSTAIN" as being present and entitled to vote for purposes of determining the presence of a quorum and as 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, in a 1988 Delaware case, *Berlin v. Emerald Partners*, the Delaware Supreme Court held that, although broker non-votes may be counted for purposes of determining the presence or absence of a quorum for the transaction of business, broker non-votes should 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. Broker non-votes with respect to proposals set forth in this Proxy Statement will therefore not be considered

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"Votes Cast" 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.

DEADLINE FOR RECEIPT OF STOCKHOLDER PROPOSALS

Proposals of stockholders of the Company that are intended to be presented at the 2002 Annual Meeting of Stockholders must be received by the Company no later than January 4, 2002 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, 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 earlier than January 4, 2002 and no later than March 20, 2002. However, in the event the date of the 2002 Annual Meeting of Stockholders is more than 30 days before or after (other than as a result of adjournment) the one year anniversary of the Annual Meeting, notice by the stockholder to be timely must be delivered in writing at the close of business on the later of (i) 60 days before the 2002 Annual Meeting of Stockholders, or (ii) 10 days after the day on which a public announcement of the date of such meeting is first made.

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The attached proxy card grants the proxy holders discretionary authority to vote on any matter raised at the Annual Meeting. If a stockholder intends to submit a proposal at the Company's 2002 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 in accordance with the requirements set forth in the Securities Exchange Act of 1934, as amended (the "Exchange Act"), no later than March 20, 2002, then the proxy holders will be allowed to use their discretionary authority when and if the proposal is raised at the Company's Annual Meeting in 2002.

STOCKHOLDER INFORMATION

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 30, 2000, 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 DECEMBER 30, 2000, INCLUDING THE FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES THERETO. REQUESTS FOR SUCH COPIES SHOULD BE DIRECTED TO IRIDEX CORPORATION, 1212 TERRA BELLA AVENUE, MOUNTAIN VIEW, CALIFORNIA 94043, ATTENTION: INVESTOR RELATIONS.

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PROPOSAL ONE

ELECTION OF DIRECTORS

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NOMINEES

A board of seven directors is to be elected at the Annual Meeting. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the election of the seven nominees named below, all of whom are presently directors of the Company. Each nominee has consented to be named 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 of Directors, 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. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which he 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 the nominees and certain information about them, are set forth below:

NAME OF NOMINEE -----	AGE ---	PRINCIPAL OCCUPATION -----
Theodore A. Boutacoff.....	54	President, Chief Executive Officer and Director of the Company
James L. Donovan.....	63	Vice President, Corporate Business Development and Director of the Company
John M. Nehra (1).....	52	Chairman of the Board of the Company Special Partner, New Enterprise Assoc
William Boeger, III (1)(2).....	51	Director of the Company and President Chronix Biomedical Corporation
Donald L. Hammond, D.Sc. (2).....	74	Director of the Company
Joshua Makower, M.D. (3).....	37	Director of the Company and Chairman Board and Chief Technical Officer of TransVascular, Inc.
Robert K. Anderson (1).....	65	Director of the Company

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Compensation Committee since February 2001.

Theodore A. Boutacoff has served as President, Chief Executive Officer and a director of the Company since February 1989. He received a B.S. in Civil

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Engineering from Stanford University.

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James L. Donovan has been a director of the Company since 1989 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.

John M. Nehra has served as a director of the Company since 1989 and Chairman of the Board since 1992. From January 1993 to present, Mr. Nehra has been with New Enterprise Associates, a venture capital firm, first as a General Partner and, since September 2000, as a Special Partner. Since November 1989, Mr. Nehra has also served as Managing General Partner of Catalyst Ventures, a venture capital firm. Mr. Nehra currently serves on the Board of Directors of Celeris Corporation, a clinical research services company, DaVita, Inc., a provider of dialysis services, and eBenX, Inc., a health and welfare benefits services company. He received a B.A. in Economics from University of Michigan.

William Boeger, III, has served as a director of the Company since 1989. Mr. Boeger has also served as Managing General Partner of Quest Ventures since 1985. Since 1999, Mr. Boeger has been the President of Chronix Biomedical Corporation, a genomic research and development company. From January 1994 to June 2000, Mr. Boeger also served as Chairman of the Board of Calypte Biomedical Corporation, a health-care testing company, as well as President and Chief Executive Officer from September 1997 to October 1999. He currently serves on the Board of Directors of Calypte Biomedical Corporation and Cell Pathways, Inc., a pharmaceutical company for cancer treatment and prevention. Mr. Boeger received a B.S. from Williams College and an M.B.A. from Harvard University.

Donald L. Hammond, D.Sc., has served as a director of the Company since 1990. Mr. Hammond has been retired since 1989. From 1959 to 1989, Mr. Hammond was the Director of Hewlett-Packard Laboratories, a computer and instrument company. Mr. Hammond received a B.S., an M.S. and a D.Sc. in Physics from Colorado State University.

Joshua Makower, M.D., has served as a director of the Company since 1997. Since September 1995, Dr. Makower has served as Chief Executive Officer of ExploraMed, Inc., a medical device company for the treatment of incontinence and gastro-esophageal reflux. Dr. Makower also served as Chief Executive Officer of TransVascular, Inc., a medical device company for the treatment of vascular and other diseases, from March 1996 until April 2000, at which time he assumed the title of Chairman of the Board and Chief Technical Officer. He received an M.D. from New York University School of Medicine and an M.B.A. from Columbia Business School.

Robert K. Anderson has served as a director of the Company since 1999. Mr. Anderson co-founded Valleylab, Inc., a manufacturer of surgical equipment, in 1969 and served as its Chairman and Chief Executive Officer until 1986. In 1983, Valleylab, Inc. was acquired by Pfizer, Inc. and Mr. Anderson remained as Chairman until 1996. Mr. Anderson has been retired since 1996. Mr. Anderson received a B.E.E. in Electrical Engineering from University of Minnesota.

VOTE REQUIRED

Directors will be elected by a plurality vote of the shares of the Company's Common Stock present or represented and entitled to vote on this matter at the meeting. Accordingly, the seven candidates receiving the highest

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number of affirmative votes of shares represented and voting on this proposal at the meeting will be elected directors of the Company. Votes withheld from a nominee and broker non-votes will be counted for purposes of determining the presence or absence of a quorum but because directors are elected by a plurality

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vote, will have no impact once a quorum is present. See "Information Concerning Solicitation and Voting -- Quorum; Abstentions; Broker Non-Votes."

MANAGEMENT RECOMMENDS THAT STOCKHOLDERS VOTE "FOR"
THE NOMINEES LISTED ABOVE

BOARD MEETINGS AND COMMITTEES

The Board of Directors of the Company held a total of six meetings during the fiscal year ended December 30, 2000. No director serving during the fiscal year attended fewer than 75% of the aggregate of all meetings of the Board of Directors and the committees of the Board upon which such director served. The Board of Directors has two committees, the Audit Committee and the Compensation Committee.

The Audit Committee of the Board of Directors consisted of Messrs. Anderson, Boeger and Nehra, each of whom is independent as defined under the National Association of Securities Dealers listing standards, during the fiscal year ended December 30, 2000. The Audit Committee held two meetings during the last fiscal year. The Audit Committee reviews and advises the Board of Directors regarding the Company's accounting matters and is responsible for reviewing and recommending the annual appointment of the independent public accountants, reviewing the services to be performed by them, and reviewing and evaluating the accounting principles being applied to the Company's financial reports. A copy of the Audit Committee Charter is attached to this Proxy Statement as Appendix A.

The Compensation Committee of the Board of Directors, which consisted of Messrs. Boeger and Hammond during the fiscal year ended December 30, 2000, held four meetings during the last fiscal year. The Compensation Committee reviews and advises the Board of Directors regarding all forms of compensation to be provided to the officers, employees, directors and consultants of the Company.

The Board of Directors has no nominating committee or any committee performing such functions.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee consisted of Messrs. Boeger and Hammond during the fiscal year ended December 30, 2000. Mr. Boutacoff also participates in discussions regarding salaries and incentive compensation for all employees (including officers) and consultants to the Company, except that Mr. Boutacoff is excluded from discussions regarding his own salary and incentive compensation. Except as set forth above, none of the members of the Compensation Committee is currently or has been, at any time since the formation of the Company, an officer or employee of the Company. No member of the Compensation Committee or executive officer of the Company serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee.

DIRECTOR COMPENSATION

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Directors are not paid any cash compensation from the Company for their services as members of the Board or any committee thereof, although they are reimbursed for reasonable out-of-pocket expenses incurred by them in attending such meetings.

The Company's 1995 Director Option Plan (the "Director Plan") was adopted by the Board in October 1995 and approved by the stockholders in January 1996. A total of 180,000 shares of Common Stock are reserved for issuance thereunder. The Director Plan provides for the automatic and

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nondiscretionary grant of a nonstatutory stock option to purchase 11,250 shares of the Company's Common Stock to each non-employee director on the date on which such person becomes a director (the "First Option"). The First Option becomes exercisable as to one-twelfth (1/12) of the shares subject to the option each quarter and vests over a three-year period. Thereafter, each non-employee director is automatically granted an option to purchase 3,750 shares of Common Stock on July 1 of each year, if on such date he or she has served on the Board for at least six months (the "Subsequent Option"). The Subsequent Option becomes exercisable as to one-fourth (1/4) of the shares subject to the option for each quarter, commencing one quarter after the First Option and any previously granted Subsequent Option have become fully exercisable. The Director Plan provides that the exercise price shall be equal to the fair market value of the Company's Common Stock as of the date of grant.

Messrs. Boeger, Nehra and Hammond were each granted initial options to purchase 11,250 shares of Common Stock at an exercise price of \$2.00 per share on the effective date of the Director Plan. These directors were each granted subsequent options to purchase 3,750 shares of Common Stock on July 1, 1996, July 1, 1997, July 1, 1998, July 1, 1999 and July 1, 2000 with a per share exercise price of \$14.875, \$9.125, \$8.00, \$4.875 and \$12.75 respectively. Dr. Makower was granted an initial option to purchase 11,250 shares of Common Stock at an exercise price of \$8.75 on August 22, 1997, the date he was elected a director by the Board. Dr. Makower was granted subsequent options to purchase 3,750 shares of Common Stock on July 1, 1998, July 1, 1999 and July 1, 2000 with a per share exercise price of \$8.00, \$4.875 and \$12.75 respectively. Mr. Anderson was granted an initial option to purchase 11,250 shares of Common Stock at an exercise price of \$4.875 on April 28, 1999, the date he was elected as director by the Board. Mr. Anderson was granted a subsequent option to purchase 3,750 shares of Common Stock on July 1, 2000 with a per share exercise price of \$12.75. On July 1, 2001, Messrs. Boeger, Nehra, Hammond, Makower and Anderson will each automatically be granted options to purchase 3,750 shares of Common Stock at an exercise price equal to the fair market value on the date of grant provided that each is a director at such time.

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PROPOSAL TWO

AMENDMENT OF THE 1998 STOCK PLAN

INTRODUCTION

The 1998 Stock Plan (the "1998 Plan") was adopted by the Board of Directors in February 1998 and was approved by the stockholders in June 1998. The 1998 Plan provides for the grant of options and stock purchase rights to

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purchase shares of the Company's Common Stock to employees and consultants of the Company. A total of 250,000 shares of Common Stock were initially reserved for issuance under the 1998 Plan. In April 1999 the Board of Directors amended the 1998 Plan to increase the number of shares of Common Stock reserved for issuance thereunder by 150,000 shares, from 250,000 shares to 400,000 shares. This amendment to increase the number of shares reserved under the 1998 Plan was approved by the Company's stockholders at the 1999 Annual Meeting of Stockholders in June 1999. In February 2000, the Board of Directors authorized an amendment to the 1998 Plan, subject to stockholder approval, to increase the number of shares of Common Stock reserved for issuance thereunder by 240,000 shares, from 400,000 shares to an aggregate of 640,000 shares. This amendment to increase the number of shares reserved under the 1998 Plan was approved by the Company's stockholders at the 2000 Annual Meeting of Stockholders in June 2000. In April 2001, the Board of Directors authorized an amendment to the 1998 Plan, subject to stockholder approval, to increase the number of shares of Common Stock reserved for issuance thereunder by 290,000 shares, from 640,000 shares to an aggregate of 930,000 shares. The stockholders are being asked to approve this amendment to increase the number of shares reserved under the 1998 Plan from 640,000 shares to an aggregate of 930,000 shares at the Annual Meeting. As of the Record Date, options to purchase an aggregate of 531,232 shares of Common Stock were outstanding under the 1998 Plan with a weighted average exercise price of \$7.28 per share, options to purchase an aggregate of 10,498 shares of Common Stock had been exercised and options to purchase an aggregate of 98,270 shares of Common Stock were available for grant. As of the Record Date, the market value of the Common Stock was \$3.50.

The 1998 Plan is structured to allow the Board of Directors broad discretion in creating equity incentives in order to assist the Company in attracting, retaining and motivating the best available personnel for the successful conduct of the Company's business. The Company believes that linking employee compensation to corporate performance motivates employees to improve stockholder value. The Company has, therefore, consistently included equity incentives as a significant component of compensation for its employees. This practice has enabled the Company to attract and retain the talent that it continues to require. In order to attract the service of valuable employees as the Company continues to grow, it will be necessary to continue to offer these equity incentives, particularly in the extremely competitive job market in Silicon Valley. In addition, in order to retain the services of the Company's current employees, it will be necessary to grant additional options to these employees as older options become fully vested.

Management believes it is critical to the Company's success to maintain competitive employee compensation programs. The Board believes that the number of shares reserved under the 1998 Plan will be inadequate to satisfy the other equity needs of the Company and that the proposed increase in the number of shares of Common Stock reserved under the 1998 Plan would be in the best interests of the Company and its stockholders.

The material features of the 1998 Plan are outlined below.

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SUMMARY OF THE 1998 PLAN

General. The 1998 Plan provides for the grant of options to purchase shares of the Company's Common Stock to employees (including officers and employee directors) ("Employees") and consultants. Options granted under the Plan may either be "incentive stock options" as defined in Section 422 of the Internal Revenue Code of 1986 (the "Code"), or nonstatutory stock options, as determined by the Administrator at the time of grant. The administrator of the

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1998 Plan also has the discretion to grant stock purchase rights to Employees and consultants.

Purpose. The purposes of the 1998 Plan are to attract and retain the best available personnel and to provide incentive to key Employees and consultants to promote the success of the Company's business.

Administration. The 1998 Plan is administered by the Board of Directors or one or more committees designated by the Board, as may be necessary to comply with the applicable rules, including rules governing plans intended to qualify plans under Rule 16b-3 or to qualify options as "performance-based compensation" under Section 162(m) of the Internal Revenue Code of 1986 (the "Code") (the "Administrator"). The Administrator has complete authority to construe, interpret, and administer the provisions of the 1998 Plan and the provisions of the agreements governing awards granted thereunder. The Administrator will have the authority to prescribe, amend and rescind rules and regulations pertaining to the 1998 Plan and to make all other determinations necessary or deemed advisable in the administration of the 1998 Plan. The determinations and interpretations made by the Administrator are final and binding.

Grant Limitation. The 1998 Plan provides that no optionee may be granted options and stock purchase rights to purchase more than 150,000 shares of Common Stock in any fiscal year, except that in connection with an optionee's initial service, an optionee may be granted options to purchase an additional 100,000 shares, a total limitation of 250,000 shares.

Eligibility. Nonstatutory options may be granted to Employees and consultants of the Company and its subsidiaries or successor corporation. Incentive stock options may be granted only to Employees of the Company and its subsidiaries. The Administrator selects the Employees and consultants who will be granted options and determines the number of shares to be subject to each option. In making such determination, the Administrator takes into account the duties and responsibilities of the Employee or consultant, the value of the services of such Employee or consultant, his or her present and potential contributions to the success of the Company, the anticipated years of future service of an Employee and other relevant factors. As of December 30, 2000, approximately 124 Employees were eligible to receive options under the 1998 Plan. The Company does not typically grant options under the 1998 Plan to consultants, although such grants are permitted under the 1998 Plan. The Administrator shall determine which eligible persons shall be granted options and stock purchase rights.

Exercise of Options and Stock Purchase Rights. Options and stock purchase rights become exercisable at such times as are determined by the Administrator and set forth in the individual agreements. Generally, options vest as to one forty-eighth (1/48) of the shares for each full month of service; however, typically the options will not be exercisable until at least twelve months of service has been completed. In the case of stock purchase rights, the Company has a repurchase option exercisable upon the termination of the purchaser's employment, unless the Administrator determines otherwise at the time of grant. The Company's repurchase option lapses at a rate determined by the Administrator. The purchase price for the shares so repurchased is the original price paid by the purchaser.

An option or stock purchase right is exercised by giving written notice to the Company specifying the number of full shares of Common Stock to be purchased and tendering payment of the purchase price to the

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Company. The form of consideration for exercising an option or stock purchase right, including the method of payment, is determined by the Administrator.

Exercise Price. The exercise price of options and stock purchase rights granted under the 1998 Plan is determined by the Administrator and must not be less than 100% of the fair market value of the Company's Common Stock at the time of grant; provided, however, that incentive stock options or stock purchase rights granted to stockholders owning more than 10% of the voting stock of the Company, if any, are subject to the additional restriction that the exercise price per share of each option must be at least 110% of the fair market value per share on the date of grant. The exercise price of nonstatutory options is determined by the Administrator and, in order to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, must not be less than 100% of the fair market value of the Common Stock on the date of grant.

Termination. The 1998 Plan gives the Administrator authority to vary the terms of the individual option agreements. However, generally, if the optionee ceases to be an employee or consultant, the optionee shall have the right to exercise the vested portion of an unexercised option within thirty (30) days after the date of termination, unless otherwise specified in the option agreement. If such termination is due to death or disability within the meaning of Section 422(c) of the Code, the optionee (or the optionee's legal representative) shall have the right to exercise the vested portion of an unexercised option at any time within twelve (12) months of the termination date, unless otherwise specified in the option agreement. In no event shall an option be exercisable beyond its term.

Term of Options. Options granted under the 1998 Plan expire as determined by the Administrator, but in no event later than ten (10) years after the date of grant. However, incentive stock options granted to stockholders owning more than 10% of the Company's outstanding voting stock may not have a term of more than five years. Stock purchase rights granted under the 1998 Plan also expire as determined by the Administrator, but in no event later than ninety (90) days after the date of grant. No option or stock purchase right may be exercised by any person after its expiration.

Non-Transferability of Options. Unless determined otherwise by the Administrator, options and stock purchase rights are non-transferable by the optionee other than by will or the laws of descent and distribution, and stock purchase rights are exercisable during the lifetime of the optionee or grantee of the stock purchase right only by such optionee or grantee, or in the event of the optionee's or grantee's death, by a person who acquires the right by bequest or inheritance or by reason of the death of the optionee or grantee.

Adjustments Upon Change in Capitalization. The number of shares covered by each outstanding option, and the exercise price thereof, shall be proportionately adjusted for any increase or decrease in the number of issued shares resulting from a change in the Company's capitalization, such as a stock dividend, stock split, reverse stock split, combination, reclassification, or like change in the capital structure of the Company.

Transfer of Control. In the event the Company is a participant in any merger or consolidation, each outstanding, unexercised option or stock purchase right shall be assumed or substituted by the surviving corporation. If such options or stock purchase rights are not assumed, they become fully exercisable or the repurchase right applicable to them fully lapses, respectively, for a period of fifteen (15) days following the Administrator's notice that such option has become fully exercisable or that the repurchase option with respect to a stock purchase right has fully lapsed, respectively. Any options that are neither assumed nor exercised within 15 days of written notice from the Company terminate upon the expiration of such period.

Dissolution or Liquidation. In the event of a dissolution or liquidation of the Company, any outstanding option or stock purchase right shall terminate. However, the Administrator may provide that any option be fully exercisable until ten (10) days prior to such event. In addition, the Administrator may provide that the Company's repurchase option with respect to any stock purchase right shall fully lapse prior to such event.

Amendment or Termination of the 1998 Plan. The Administrator may at any time amend, alter, suspend or terminate the 1998 Plan; provided that no amendment, alteration, suspension or termination may impair the rights of any optionee, unless mutually agreed otherwise. Options may be granted under the 1998 Plan during the period expiring February 2008.

UNITED STATES TAX INFORMATION

An optionee who is granted an incentive stock option will not recognize taxable income either at the time the option is granted or upon its exercise, although the exercise may subject the optionee to the alternative minimum tax. Upon the sale or exchange of the shares more than two years after the date of grant and one year after exercising the option, any gain or loss will be treated as long-term capital gain or loss. If these holding periods are not satisfied, the optionee will recognize ordinary income at the time of sale or exchange equal to the difference between the exercise price and the lower of (i) the fair market value of the shares on the date of the option exercise or (ii) the sale price of the shares. A different rule for measuring ordinary income upon such a premature disposition may apply if the optionee is also an officer, director or 10% stockholder of the Company. The Company will be entitled to a deduction in the same amount as the ordinary income recognized by the optionee. Any gain or loss recognized on such a premature disposition of the shares in excess of the amount treated as ordinary income will be characterized as long-term or short-term capital gain or loss, depending on the holding period.

All other options that do not qualify as incentive stock options are referred to as nonstatutory options. An optionee will not recognize any taxable income at the time a nonstatutory option is granted. However, upon its exercise, the optionee will recognize taxable income generally measured as the excess of the then fair market value of the shares exercised over the exercise price. A different rule may apply if the optionee is a director, officer or 10% stockholder. Any taxable income recognized in connection with an option exercise by an optionee who is also an employee of the Company will be subject to tax withholding by the Company by payment in cash or out of the current earnings paid to the optionee. Upon resale of such shares by the optionee, any difference between the sales price and the optionee's exercise price, to the extent not recognized as taxable income as described above, will be treated as long-term or short-term capital gain or loss, depending on the holding period. The Company will be entitled to a tax deduction in the same amount as the ordinary income recognized by the optionee with respect to shares acquired upon exercise of a nonstatutory option.

THE FOREGOING SUMMARY OF THE EFFECT OF THE UNITED STATES FEDERAL INCOME TAXATION LAWS UPON THE OPTIONEE AND THE COMPANY IN CONNECTION WITH THE 1998 PLAN DOES NOT PURPORT TO BE COMPLETE, AND REFERENCE SHOULD BE MADE TO THE APPLICABLE PROVISIONS OF THE CODE. IN ADDITION, THIS SUMMARY DOES NOT DISCUSS THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.

AMENDED AND NEW PLAN BENEFITS

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The grant of options under the 1998 Plan to directors and executive officers, including the officers named in the Summary Compensation Table below, is subject to the discretion of the Administrator. As of the date of this proxy statement, there has been no determination by the Administrator with respect to future awards

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under the 1998 Plan. Accordingly, future awards are not determinable. The table of option grants under "Executive Compensation and Other Matters--Option Grants in Last Fiscal Year" provides information with respect to the grant of options to the named executive officers identified in that table during fiscal 2000. During fiscal 2000, no current executive officers were granted any options pursuant to the 1998 Plan, and all other employees as a group were granted options to purchase 365,950 shares pursuant to the 1998 Plan.

As of the Record Date, options to purchase an aggregate of 531,232 shares of Common Stock were outstanding under the 1998 Plan with a weighted average exercise price of \$7.28 per share, options to purchase an aggregate of 10,221 shares of Common Stock had been exercised and options to purchase an aggregate of 98,270 shares of Common Stock were available for grant. As of the Record Date, the market value of the Common Stock was \$3.50.

REQUIRED VOTE

If a quorum is present, the affirmative vote of a majority of the Votes Cast will be required to approve the amendment of the 1998 Plan. A broker non-vote will not be treated as entitled to vote on this subject matter at the Annual Meeting. See "Information Concerning Solicitation and Voting -- Quorum; Abstentions; Broker Non-Votes."

MANAGEMENT RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR"
THE AMENDMENT OF THE 1998 STOCK PLAN

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PROPOSAL THREE

AMENDMENT OF THE 1995 EMPLOYEE STOCK PURCHASE PLAN

INTRODUCTION

The Company's 1995 Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors in November 1995 and was approved by the stockholders in January 1996. The Purchase Plan provides employees of the Company the opportunity to purchase Common Stock through accumulated payroll deductions at below market prices. A total of 50,000 shares of Common Stock were initially reserved for issuance under the Purchase Plan. In January 1997, the Board of Directors amended the Purchase Plan to increase the number of shares of Common Stock reserved for issuance thereunder by 50,000 shares to an aggregate of 100,000 shares. The amendment to increase the number of shares reserved under the Purchase Plan from 50,000 to 100,000 shares was approved by the stockholders at the 1997 Annual Meeting of Stockholders in April 1997. In February 1998, the Board of Directors amended the Purchase Plan to increase the number of shares of Common Stock reserved for issuance thereunder by 75,000 shares, from 100,000

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shares to an aggregate of 175,000 shares. The amendment to increase the number of shares reserved under the Purchase Plan from 100,000 shares to 175,000 shares was approved by the stockholders at the 1998 Annual Meeting of Stockholders in June 1998. In April 1999, the Board of Directors amended the Purchase Plan to increase the number of shares of Common Stock reserved for issuance thereunder by 75,000 shares, from 175,000 shares to an aggregate of 250,000 shares. The amendment to increase the number of shares reserved under the Purchase Plan from 175,000 shares to an aggregate of 250,000 shares was approved by the stockholders at the 1999 Annual Meeting of Stockholders in June 1999. In February 2000, the Board of Directors authorized an amendment to the Purchase Plan, subject to stockholder approval, to increase the number of shares reserved under the Purchase Plan by 50,000 shares, from 250,000 shares to an aggregate of 300,000 shares. The amendment to increase the number of shares reserved under the Purchase Plan from 250,000 shares to 300,000 shares was approved by the stockholders at the 2000 Annual Meeting of Stockholders in June 2000. In April 2001, the Board of Directors amended the Purchase Plan to increase the number of shares of Common Stock reserved for issuance thereunder by 40,000 shares, from 300,000 shares to an aggregate of 340,000 shares. The stockholders are being asked to approve this amendment to increase the number of shares reserved under the Purchase Plan from 300,000 shares to an aggregate of 340,000 shares at the Annual Meeting. As of the Record Date, 75,878 shares were available for purchase under the Purchase Plan. As of the Record Date, the market value of the Common Stock was \$3.50.

The Board of Directors believes that the Purchase Plan is an important factor in creating equity incentives to assist the Company in attracting, retaining and motivating the best available personnel for the successful conduct of the Company's business. The Company believes that linking employee compensation to corporate performance motivates employees to improve stockholder value. The Company has, therefore, consistently included equity incentives as significant component of compensation for its employees. This practice has enabled the Company to attract and retain the talent that it continues to require. In order to attract and retain the service of valuable employees as the Company continues to grow, it will be necessary to continue to provide for these equity incentives, particularly in the extremely competitive job market in Silicon Valley.

Management believes it is critical to the Company's success to maintain competitive employee compensation programs. The Board believes that the number of shares reserved under the Purchase Plan and the other plans described above will be inadequate to satisfy the other equity needs of the Company and that the proposed increase in the number of shares of Common Stock reserved under the Purchase Plan would be in the best interests of the Company and its stockholders.

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The material features of the Purchase Plan are outlined below.

SUMMARY OF THE 1995 EMPLOYEE STOCK PURCHASE PLAN

Purpose. The purpose of the Purchase Plan is to provide employees of the Company with an opportunity to purchase Common Stock through accumulated payroll deductions.

Administration. The Purchase Plan, which is intended to qualify under Section 423 of the Code, is administered by the Board of Directors or a committee designated by the Board, as may be necessary to comply with the rules governing plans intended to qualify as discretionary grant plans under Rule

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16b-3 (the "Administrator"). All questions of interpretation or application of the Purchase Plan are determined by the Administrator, and its decisions are final, conclusive and binding upon all participants.

Eligibility and Participation; Withdrawal. Employees of the Company and its designated subsidiaries who are employed on a given enrollment date are eligible to participate in the Purchase Plan if they are customarily employed for at least 20 hours per week and more than five months per year, and do not own or hold options to purchase as a result of such participation, five percent or more of the total combined voting power or value of all classes of stock of the Company. Notwithstanding the foregoing, no employee may be granted the right to purchase more than \$25,000 worth or more than 1,000 shares of Common Stock annually. Eligible employees become participants in the Purchase Plan by completing a subscription agreement authorizing payroll deductions of up to 10% of the employee's compensation, and filing it with the Company's Personnel Department not later than the day before an enrollment date. An employee may withdraw from the Purchase Plan at any time by giving written notice to the Company. In such a case, all payroll deductions credited to the employee's account and not yet used to purchase stock are refunded. Approximately 70 employees are currently participating in the Purchase Plan.

Offering Periods. The Purchase Plan is implemented by consecutive six-month offering periods. Offering periods commence on the first trading day on or after September 1 and March 1 and terminate on the last trading day of the sixth month following such commencement date. The Administrator may change the commencement date and duration of the offering periods without stockholder approval.

Purchase Price. The purchase price per share at which shares may be sold to employees under the Purchase Plan is 85% of the lower of the fair market value of the Company's Common Stock (a) on the date of commencement of the offering period or (b) on the last trading day of the six-month offering period. The fair market value of the Company's Common Stock on a given date is the closing sale price on the Nasdaq National Market. In the event the Company's Common Stock is quoted on the Nasdaq system but not on the National Market thereof, the fair market value is the mean of the closing bid and asked prices for the Company's Common Stock on the date of determination. In the absence of an established market for the Common Stock, the fair market value is established by the Board of Directors.

Adjustments on Changes in Capitalization. In the event any change is made in the Company's capitalization, such as a stock split or stock dividend, which results in an increase or decrease in the number of outstanding shares of the Company's Common Stock without receipt of consideration by the Company, the number of shares remaining subject to the Purchase Plan and the purchase price per share shall be appropriately adjusted. In the event of a proposed dissolution or liquidation of the Company, the offering periods will terminate immediately prior to such dissolution or liquidation, unless the Board provides otherwise. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each option under the Purchase Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary

of such successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, to shorten the offering period then in progress by setting a new exercise date.

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Transferability. No rights or accumulated payroll deductions of a participant may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will or the laws of descent and distribution).

Amendment and Termination of the Purchase Plan. The Board of Directors may at any time and for any reason amend or terminate the Purchase Plan, except that (i) such termination shall not affect any purchase rights previously granted (except as permitted under the terms of the Purchase Plan), and (ii) no amendment may adversely affect a purchase right previously granted under the Purchase Plan (except to the extent permitted by the terms of the Purchase Plan or as may be necessary to qualify the Purchase Plan as an employee stock purchase plan pursuant to Section 423 of the Code or to obtain qualification or registration of the shares under applicable foreign, federal or state securities laws). The Purchase Plan shall continue in effect for a term of ten years unless terminated earlier by the Board or until all of the shares reserved for issuance thereunder have been issued.

UNITED STATES TAX INFORMATION

The Purchase Plan and the rights of participants to make purchases thereunder, is intended to qualify under the provisions of Sections 421 and 423 of the Code. Under these provisions, no income will be taxable to a participant until the shares purchased under the Purchase Plan are sold or otherwise disposed of. Upon the sale or other disposition of the shares, the participant will generally be subject to tax and the amount of the tax will depend upon the holding period. If the shares are sold or otherwise disposed of more than two years from the first day of the offering period and one year from the date the shares are purchased, the participant will recognize ordinary income measured as the lesser of (i) the excess of the fair market value of the shares on the date of such sale or disposition over the purchase price, or (ii) an amount equal to 15% of the fair market value of the shares as of the first day of the offering period. Any additional gain will be treated as long-term capital gain. If the shares are sold or otherwise disposed of before the expiration of these holding periods, the participant will recognize ordinary income generally measured as the excess of the fair market value of the shares on the date the shares are purchased over the purchase price. Any additional gain or loss on such sale or disposition will be long-term or short-term capital gain or loss, depending on the holding period. The Company is not entitled to a deduction for amounts taxed as ordinary income or capital gain to a participant except to the extent of ordinary income recognized by participants upon a sale or disposition of shares prior to the expiration of the holding periods described above.

THE FOREGOING SUMMARY OF THE EFFECT OF THE UNITED STATES FEDERAL INCOME TAXATION LAWS UPON THE PARTICIPANT AND THE COMPANY IN CONNECTION WITH THE PURCHASE PLAN DOES NOT PURPORT TO BE COMPLETE, AND REFERENCE SHOULD BE MADE TO THE APPLICABLE PROVISIONS OF THE CODE. IN ADDITION, THIS SUMMARY DOES NOT DISCUSS THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.

AMENDED AND NEW PLAN BENEFITS

The Company cannot now determine the number of shares to be issued in the future pursuant to the Purchase Plan to the Company's executive officers and employees. In 2000, 37,428 shares of the Company's Common Stock were issued to all employees (excluding executive officers) and 2,903 shares of the Company's Common Stock were issued to the executive officers as a group.

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REQUIRED VOTE

If a quorum is present, the affirmative vote of a majority of the Votes Cast will be required to approve the amendment of the Purchase Plan. A broker non-vote will not be treated as entitled to vote on this subject matter at the Annual Meeting. See "Information Concerning Solicitation and Voting -- Quorum; Abstentions; Broker Non-Votes."

MANAGEMENT RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR"
THE AMENDMENT OF THE 1995 EMPLOYEE STOCK PURCHASE PLAN

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PROPOSAL FOUR

RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS

INTRODUCTION

The Board of Directors has selected PricewaterhouseCoopers LLP, independent accountants, to audit the financial statements of the Company for the fiscal year ending December 29, 2001, and recommends that stockholders vote for ratification of such appointment. Representatives of PricewaterhouseCoopers LLP 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 of Directors has determined that it is desirable to request approval of this selection by the stockholders. Notwithstanding the selection, the Board of Directors, in its discretion, may direct the appointment of new independent auditors at any time during the year, if the Board of Directors 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 Board of Directors will reconsider its selection.

FEES BILLED TO COMPANY BY PRICEWATERHOUSECOOPERS, LLP DURING FISCAL 2000

Audit Fees

Audit fees billed to the Company by PricewaterhouseCoopers, LLP during the Company's 2000 fiscal year for review of the Company's annual financial statements and those financial statements included in the Company's quarterly reports on Form 10-Q totaled \$74,750.

Financial Information Systems Design and Implementation Fees

The Company did not engage PricewaterhouseCoopers, LLP to provide advice to the Company regarding financial information systems design and implementation during the fiscal year ended December 30, 2000.

All Other Fees

Fees billed to the Company by PricewaterhouseCoopers, LLP during the Company's 2000 fiscal year for all other non-audit services rendered to the Company, including accounting advice services, totaled \$33,960.

MANAGEMENT RECOMMENDS THAT STOCKHOLDERS VOTE "FOR"

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RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock as of the Record Date by (i) each person (or group of affiliated persons) known to the Company to be 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.

NAME AND ADDRESS -----	BENEFICIAL ----- NUMBER OF SHARES -----
Wellington Management Company LLP..... 75 State Street Boston, MA 02109 (2)	628,000
Special Situations Fund III, L.P..... MGP Advisors Limited Partnership 153 E 53rd Street, 51st Floor New York, NY 10022 (3)	462,570
Special Situations Cayman Fund, L.P..... AWM Investment Company, Inc. 153 E 53rd Street, 51st Floor New York, NY 10022 (3)	116,900
Dimensional Fund Advisors Inc..... 1299 Ocean Ave. 11th Floor Santa Monica, CA 90401(4)	370,600
Milton Chang..... 26228 Scarff Way Los Altos Hills, CA 94022 (5)	367,020
William Boeger, III (6).....	307,685
Theodore A. Boutacoff (7).....	299,958
Eduardo Arias (8).....	275,408
Robert K. Anderson (9).....	159,216
John M. Nehra (10).....	158,858
James Donovan (11).....	93,664
Donald L. Hammond (12).....	69,485
Robert Kamenski (13).....	61,543
Timothy S. Powers (14).....	59,388
Joshua Makower (15).....	12,765
All directors and executive officers as a group (10 persons) (16).....	1,497,970

* Represents beneficial ownership of less than 1%.

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- (1) Applicable percentage ownership is based on 6,730,626 shares of Common Stock outstanding as of the Record Date together with applicable options for such stockholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (the "Commission"), and includes voting and investment power with respect to shares. Shares of Common Stock subject to options currently exercisable or exercisable within 60 days after the Record Date are deemed outstanding for computing the percentage ownership of the person holding such options, but are not deemed outstanding for computing the percentage of any other person. Except as noted in the footnotes to this table, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of the Company's Common Stock shown as beneficially owned by them.
- (2) Based solely on information provided pursuant to Schedules 13G and 13G/A filed with the Securities and Exchange Commission for calendar year 200. In its role as investment advisor, Wellington Management Company LLP may be deemed to beneficially own 628,000 shares by reason of its shared voting power with respect to 518,000 shares and shared dispositive power with respect to 628,000 shares.
- (3) Based solely on information provided pursuant to Schedules 13G and 13G/A filed with the Securities and Exchange Commission for calendar year 2000. Austin Marx and David Greenhouse exercise shared voting and dispositive power with respect to these shares and are deemed to beneficially own these shares by virtue of being executive officers of MGP Advisors Limited Partnership and AWM Investment Company, Inc., the general partners of Special Situations Fund III, L.P., and Special Situations Cayman Fund, L.P., respectively.
- (4) Based solely on information provided pursuant to Schedules 13G and 13G/A filed with the Securities and Exchange Commission for calendar year 2000. In its role as investment advisor or manager, Dimensional Fund Advisors, Inc. exercises sole voting and dispositive power with respect to 370,600 shares, but disclaims beneficial ownership of all 370,600 shares.
- (5) Based solely on information provided pursuant to Schedule 13G and 13G/A filed with the Securities and Exchange Commission for calendar year 2000.
- (6) Includes 157,640 shares held by Quest Ventures II and 107,748 shares held by Quest Ventures International, as to which shares Mr. Boeger disclaims beneficial ownership. Mr. Boeger is general partner of Quest Ventures II and Quest Ventures International. Includes 38,078 shares subject to stock options held by Mr. Boeger that are exercisable within 60 days of the Record Date.
- (7) Includes 20,000 shares held by Mr. Boutacoff as custodian for his daughter under the Uniform Transfers to Minors Act and 83,958 shares subject to stock options held by Mr. Boutacoff that are exercisable within 60 days of the Record Date.
- (8) Includes 163,742 shares held by the Arias Trust, dated October 19, 1994, over which Mr. Arias exercises voting and dispositive power and 59,166 shares subject to stock options held by Mr. Arias that are exercisable within 60 days of the Record Date.
- (9) Includes 7,716 shares subject to stock options held by Mr. Anderson that are exercisable within 60 days of the Record Date.
- (10) Includes 27,348 shares held by Mr. Nehra's spouse as separate property, as to which shares Mr. Nehra disclaims beneficial ownership. Also includes

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28,078 shares subject to stock options held by Mr. Nehra that are exercisable within 60 days of the Record Date.

- (11) Includes 59,913 shares held by the Donovan Trust dated March 14, 1978, over which Mr. Donovan exercises investment and voting control, and 33,751 shares subject to stock options that are exercisable within 60 days of the Record Date.
- (12) Includes 12,500 shares held by the Hammond Marital Trust UA 8/30/95 and 12,500 shares held by the Hammond Survivors Trust UA 8/30/95, over which Mr. Hammond exercises voting and dispositive power. Also includes 43,078 shares subject to stock options held by Mr. Hammond that are exercisable within 60 days of the Record Date.
- (13) Includes 61,543 shares subject to stock options held by Mr. Kamenski that are exercisable within 60 days of the Record Date.
- (14) Includes 56,458 shares subject to stock options held by Mr. Powers that are exercisable within 60 days of the Record Date.
- (15) Includes 12,765 shares subject to stock options held by Dr. Makower that are exercisable within 60 days of the Record Date.
- (16) Includes 419,591 shares subject to stock options that are exercisable within 60 days of the Record Date. See footnotes (6) through (15) above.

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EXECUTIVE COMPENSATION

SUMMARY COMPENSATION

The following table shows, as to the Company's Chief Executive Officer and each of its other three most highly compensated executive officers earning more than \$100,000 in salary and bonus (the "Named Officers"), information concerning compensation awarded to, earned by or paid for their services to the Company in all capacities during 2000, 1999 and 1998. The entries under the column heading "Other Compensation" in the table represent the cost of term life insurance for each Named Officer, except as otherwise noted.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		
		SALARY (\$) (3)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)
Theodore A. Boutacoff	2000	\$216,654	--	--
President and Chief	1999	187,442	50,000 (1)	--
Executive Officer	1998	182,692	--	--
Eduardo Arias	2000	153,933	--	--

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Senior Vice President	1999	147,871	42,356 (2)	--
Worldwide Sales	1998	155,642	--	--
Robert Kamenski	2000	150,300	--	--
Vice President,	1999	141,423	5,401 (1)	--
Administration and	1998	141,615	--	--
Chief Financial Officer				
Timothy S. Powers	2000	153,093	--	--
Vice President, Operations	1999	142,814	5,489 (1)	--
	1998	139,039	--	--

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- (1) Represents bonuses earned in fiscal year 1999 and paid out in February 2000.
 - (2) Represents sales incentives earned in fiscal year 1999 and paid out in March 2000.
 - (3) There were 26 pay periods during fiscal year 1999 and fiscal year 2000, compared to 27 pay periods during fiscal year 1998.

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STOCK OPTION GRANTS AND EXERCISES DURING LAST FISCAL YEAR

No stock options were granted to the Named Officers named in the Summary Compensation Table above during the fiscal year ended December 30, 2000.

OPTION GRANTS IN FISCAL 2000
INDIVIDUAL GRANTS

NAME AND PRINCIPAL POSITION	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE (\$/SH)	EXPIRATION DATE
Theodore A. Boutacoff President and Chief Executive Officer	--	--	--	--
Eduardo Arias Senior Vice President Worldwide Sales	--	--	--	--
Robert Kamenski Vice President, Administration and Chief Financial Officer	--	--	--	--
Timothy S. Powers Vice President, Operations	--	--	--	--

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND YEAR-END OPTION VALUES

The following table shows, as to the individuals named in the Summary Compensation Table above, the number of options exercisable and unexercisable at December 30, 2000, information concerning stock options exercised during the fiscal year ended December 30, 2000 and the value of unexercised options at such date.

AGGREGATED OPTION EXERCISES IN FISCAL 2000 AND
FISCAL 2000 YEAR-END OPTION VALUES

NAME AND PRINCIPAL POSITION	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)(1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 30, 2000 (#)		EXE
			EXERCISABLE	UNEXERCISABLE	
Theodore A. Boutacoff President and Chief Executive Officer	--	--	77,709	17,291	\$
Eduardo Arias Senior Vice President Worldwide Sales	--	--	54,792	11,666	
Robert Kamenski Vice President, Administration and Chief Financial Officer	2,000	\$9,625	56,021	11,979	
Timothy S. Powers Vice President, Operations	--	--	48,855	29,145	

- (1) Market value of the Company's Common Stock at the exercise date minus the exercise price.
- (2) Calculated by determining the difference between the fair market value of the securities underlying the options at year-end (\$4.875 per share) and the exercise price of the options.

EMPLOYMENT AGREEMENTS

The Company has no employment contracts with any of its officers and has no compensatory plans or arrangements that are activated upon resignation, termination or retirement of any such officer upon a change in control of the Company. The 1998 Plan and the Director Plan provide for the accelerated vesting of all outstanding options upon a change in control, but, in the case of the 1998 Plan, only if the option is not assumed or substituted. In addition, because competition for talented employees is intense, the Company may in the future consider entering into severance agreements with certain of its key

employees.

OTHER EMPLOYEE BENEFIT PLANS

401(k) Plan

The Company sponsors a 401(k) Plan under which 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 in fiscal year 2000 was \$750 per employee and in fiscal year 2001 is \$1,000 per employee. All full-time employees who have attained age 18 are eligible to participate in the plan.

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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 nonforfeitable.

REPORT OF THE COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS

GENERAL

The Compensation Committee (the "Committee") of the Board of Directors establishes the overall executive compensation strategies of the Company and approves compensation elements for the Company's Chief Executive Officer and other executive officers. The Committee is comprised of two independent, nonemployee members of the Board of Directors, neither of who has interlocking relationships as defined by the Securities and Exchange Commission. The Committee has available to it such external compensation advice and data as the Committee deems appropriate to obtain.

The compensation philosophy of the Committee is 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 similar skills to those performed by the executives of the Company. Accordingly, the Committee follows a compensation strategy that has used vesting terms to incentivize and reward executives as the Company addresses the challenges associated with growth. As the Committee applies this compensation philosophy in determining appropriate executive compensation levels and other compensation factors, the Committee reaches its decisions with a view towards the Company's overall financial performance. The Committee strives to structure each officer's overall compensation package to enable the Company to attract, retain and reward personnel who contribute to the success of the Company.

EXECUTIVE OFFICER COMPENSATION

The objectives of the executive officer compensation program are to attract, retain, motivate and reward key personnel who possess 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

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salaries, the 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 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. In 2000, the Company's goals were targeted toward longer-term objectives for corporate development. As a consequence, the Company did not have an incentive bonus plan for executive officers in fiscal 2000.

Stock Option Grants. Stock options are granted to executive officers and other employees under the Company's Option Plans. Stock option 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

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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.

CEO COMPENSATION

Compensation for the Chief Executive Officer is consistent with the philosophies and practices described above for executive officers in general. Mr. Boutacoff's salary was increased in 2000 commensurate with market conditions. Mr. Boutacoff was not granted any options in fiscal year 2000.

COMPENSATION COMMITTEE

William Boeger, III
Donald L. Hammond

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The following is the report of the audit committee of the Board of Directors. The audit committee has reviewed and discussed the audited financial statements of the Company for the fiscal year ended December 30, 2000 with management. In addition, the audit committee has discussed with PricewaterhouseCoopers, LLP, the Company's independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committee). The audit committee also has received the written disclosures and the letter from PricewaterhouseCoopers, LLP as required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and the audit committee has discussed the independence of PricewaterhouseCoopers, LLP with that firm.

Based on the audit committee's review of the matters noted above and its discussions with the Company's independent auditors and the Company's management, the audit committee recommended to the Board of Directors that the

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financial statements be included in the Company's Annual Report on Form 10-K. This report has been provided by Robert K. Anderson, William Boeger, III and John M. Nehra, the members of the Audit Committee.

Respectfully Submitted by:

Robert K. Anderson
William Boeger, III
John M. Nehra

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COMPANY STOCK PRICE PERFORMANCE

The following graph demonstrates a comparison of cumulative total stockholder returns, calculated on a dividend reinvestment basis and based upon an initial investment of \$100 in the Company's Common Stock as compared with the Russell 2000 Index and the Standard and Poors 500 Index. No dividends have been declared or paid on the Company's Common Stock during such period. The stock price performance shown on the graph below is not necessarily indicative of future price performance. The Company's Common Stock began trading on the Nasdaq National Market on February 15, 1996. The graph reflects the Company's stock price performance from the initial public offering through the end of fiscal year 2000.

IRIDEX CORPORATION COMPANY STOCK PRICE PERFORMANCE

	2/16/96 -----	3/29/96 -----	6/28/96 -----	9/30/96 -----	12/31/96 -----	3/31/97 -----
IRIDEX Corporation	100.000	113.889	166.667	91.667	83.333	75.000
Standard & Poors 500	100.000	99.617	103.495	106.073	114.315	116.843
Russell 2000	100.000	102.855	107.780	107.712	112.755	106.521
	3/31/98 -----	7/2/98 -----	10/2/98 -----	12/31/98 -----	4/1/99 -----	7/2/99 -----
IRIDEX Corporation	92.367	87.500	41.667	47.222	47.222	50.000
Standard & Poors 500	170.028	176.922	154.727	189.702	199.654	214.701
Russell 2000	149.470	142.514	108.744	131.211	123.990	141.954
	3/31/00 -----	7/1/00 -----	9/30/00 -----	12/30/00 -----		
IRIDEX Corporation	130.556	141.667	121.533	54.167		
Standard & Poors 500	231.269	224.482	221.690	203.753		
Russell 2000	167.633	160.835	162.123	150.356		

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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 \$60,000 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 Securities and Exchange Commission (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). Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no filings were required for such persons, the Company believes that during fiscal 2000 all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% stockholders were complied with.

OTHER MATTERS

The Company knows of no other matters to be submitted to the 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 of Directors may recommend.

THE BOARD OF DIRECTORS

Dated: May 4, 2001

APPENDIX A

AMENDED AND RESTATED

CHARTER FOR THE AUDIT COMMITTEE

OF THE BOARD OF DIRECTORS

OF

IRIDEX CORPORATION

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PURPOSE:

The purpose of the Audit Committee of the Board of Directors of IRIDEX Corporation (the "Company") shall be:

- to provide oversight and monitoring of Company management and the independent auditors and their activities with respect to the Company's financial reporting process;
- to provide the Company's Board of Directors with the results of its monitoring and recommendations derived therefrom;
- to nominate to the Board of Directors independent auditors to audit the Company's financial statements and oversee the activities and independence of the auditors; and
- to provide to the Board of Directors such additional information and materials as it may deem necessary to make the Board of Directors aware of significant financial matters that require the attention of the Board of Directors.

The Audit Committee will undertake those specific duties and responsibilities listed below and such other duties as the Board of Directors may from time to time prescribe.

MEMBERSHIP:

The Audit Committee members will be appointed by, and will serve at the discretion of, the Board of Directors and will consist of at least three members of the Board of Directors. On or before June 14, 2001, the members will meet the following criteria:

1. Each member will be an independent director, in accordance with the Nasdaq National Market Audit Committee requirements;
2. Each member will be able to read and understand fundamental financial statements, in accordance with the Nasdaq National Market Audit Committee requirements; and
3. At least one member will have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or

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background, including a current or past position as a chief executive or financial officer or other senior officer with financial oversight responsibilities.

RESPONSIBILITIES:

The responsibilities of the Audit Committee shall include:

- Providing oversight and monitoring of Company management and the independent auditors and their activities with respect to the Company's financial reporting process;
- Recommending the selection and, where appropriate, replacement of

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the independent auditors to the Board of Directors;

- Reviewing fee arrangements with the independent auditors;
- Reviewing the independent auditors' proposed audit scope, approach and independence;
- Reviewing the performance of the independent auditors, who shall be accountable to the Board of Directors and the Audit Committee;
- Requesting from the independent auditors of a formal written statement delineating all relationships between the auditor and the Company, consistent with Independent Standards Board Standard No. 1, and engaging in a dialogue with the auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors;
- Directing the Company's independent auditors to review before filing with the SEC the Company's interim financial statements included in Quarterly Reports on Form 10-Q, using professional standards and procedures for conducting such reviews;
- Discussing with the Company's independent auditors the matters required to be discussed by Statement on Accounting Standard No. 61, as it may be modified or supplemented;
- Reviewing with management, before release, the audited financial statements and Management's Discussion and Analysis in the Company's Annual Report on Form 10-K;
- Providing a report in the Company's proxy statement in accordance with the requirements of Item 306 of Regulation S-K and Item 7(e) (3) of Schedule 14A;
- Reviewing the Audit Committee's own structure, processes and membership requirements; and
- Performing such other duties as may be requested by the Board of Directors.

MEETINGS:

The Audit Committee will meet at least quarterly. The Audit Committee may establish its own schedule, which it will provide to the Board of Directors in advance.

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The Audit Committee will meet separately with the independent auditors as well as members of the Company's management as it deems appropriate in order to review the financial controls of the Company.

MINUTES:

The Audit Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board of Directors.

REPORTS:

Apart from the report prepared pursuant to Item 306 of Regulation S-K and Item 7(e) (3) of Schedule 14A, the Audit Committee will summarize its examinations and recommendations to the Board from time to time as may be appropriate, consistent with the Committee's charter.

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APPENDIX B

IRIDEX CORPORATION
1998 STOCK PLAN
(As amended April 24, 2001)

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.

Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

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) "Applicable Laws" means the requirements relating to the administration of stock option plans 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 Options or Stock Purchase Rights are, or will be, granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

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(e) "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 of the Plan.

(f) "Common Stock" means the common stock of the Company.

(g) "Company" means IRIDEX Corporation, a Delaware corporation.

(h) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity and any person designated as a key medical advisor by the Company.

(i) "Director" means a member of the Board.

(j) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(k) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall 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, any Subsidiary, or any successor. For purposes of Incentive Stock Options, no such leave may exceed ninety 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, on the 181st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

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(m) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(n) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and

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the regulations promulgated thereunder.

(o) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(p) "Notice of Grant" means a written or electronic notice evidencing certain terms and conditions of an individual Option or Stock Purchase Right grant. The Notice of Grant is part of the Option Agreement.

(q) "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.

(r) "Option" means a stock option granted pursuant to the Plan.

(s) "Option Agreement" means an agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(t) "Option Exchange Program" means a program whereby outstanding Options are surrendered in exchange for Options with a lower exercise price.

(u) "Optioned Stock" means the Common Stock subject to an Option or Stock Purchase Right.

(v) "Optionee" means the holder of an outstanding Option or Stock Purchase Right granted under the Plan.

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

(x) "Plan" means this 1998 Stock Plan.

(y) "Restricted Stock" means shares of Common Stock acquired pursuant to a grant of Stock Purchase Rights under Section 11 of the Plan.

(z) "Restricted Stock Purchase Agreement" means a written agreement between the Company and the Optionee evidencing the terms and restrictions applying to stock purchased under a Stock Purchase Right. The Restricted Stock Purchase Agreement is subject to the terms and conditions of the Plan and the Notice of Grant.

(aa) "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.

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(bb) "Section 16(b)" means Section 16(b) of the Exchange Act.

(cc) "Service Provider" means an Employee, Director or Consultant.

(dd) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(ee) "Stock Purchase Right" means the right to purchase Common Stock pursuant to Section 11 of the Plan, as evidenced by a Notice of Grant.

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

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3. 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 930,000 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated); provided, however, that Shares that have actually been issued under the Plan, whether upon exercise of an Option or Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under 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 determine the Fair Market Value;

(ii) to select the Service Providers to whom Options and Stock Purchase Rights may be granted hereunder;

(iii) to determine the number of shares of Common Stock to be covered by each Option and Stock Purchase Right granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture

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restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vi) to reduce the exercise price of any Option or Stock Purchase Right to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option or Stock Purchase Right shall have declined since the date the Option or Stock Purchase Right was granted;

(vii) to institute an Option Exchange Program;

(viii) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan;

(ix) 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 qualifying for preferred tax treatment under foreign tax laws;

(x) to modify or amend each Option or Stock Purchase Right (subject to Section 15(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options longer than is otherwise provided for in the Plan;

(xi) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by an Optionee to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

(xii) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Option or Stock Purchase Right previously granted by the Administrator; and

(xiii) 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 Optionees and any other holders of Options or Stock Purchase Rights.

5. Eligibility. Nonstatutory Stock Options and Stock Purchase Rights may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Limitations.

(a) Each Option shall be designated in the Option 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 Optionee 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

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time the Option with respect to such Shares is granted.

(b) Neither the Plan nor any Option or Stock Purchase Right shall confer upon an Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall they interfere in any way with the Optionee's right or the Company's right to terminate such relationship at any time, with or without cause.

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

(i) No Service Provider shall be granted, in any fiscal year of the Company, Options to purchase more than 150,000 Shares.

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(ii) In connection with his or her initial service, a Service Provider may be granted Options to purchase up to an additional 100,000 Shares which shall not count against the limit set forth in subsection (i) above.

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

(iv) 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 (i) and (ii) 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.

7. Term of Plan. Subject to Section 19 of the Plan, the Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term of ten (10) years unless terminated earlier under Section 15 of the Plan.

8. Term of Option. The term of each Option shall be stated in the Option Agreement; provided, however, that (i) in the case of an Incentive Stock Option, the term shall be ten (10) years from the date of grant or such shorter term as may be provided in the Option Agreement and (ii) in the case of an Incentive Stock Option granted to an Optionee 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 in the Option Agreement.

9. Option Exercise Price and Consideration.

(a) 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:

(i) 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

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no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be determined by the Administrator. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(iii) 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 merger or other corporate transaction.

(b) 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.

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(c) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of:

(i) cash;

(ii) check;

(iii) promissory note;

(iv) other Shares which (A) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(v) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan;

(vi) a reduction in the amount of any Company liability to the Optionee, including any liability attributable to the Optionee's participation in any Company-sponsored deferred compensation program or arrangement;

(vii) any combination of the foregoing methods of payment; or

(viii) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

10. Exercise of Option.

(a) 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 Option Agreement. Unless the Administrator provides otherwise, vesting of Options granted hereunder shall be tolled during any unpaid leave of absence. An Option may not be exercised for a fraction of a Share.

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An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee 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.

(b) Termination of Relationship as a Service Provider. If an Optionee ceases to be a Service Provider, other than upon the Optionee's death or Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option 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 Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for thirty (30) days following the Optionee's termination. If, on the date of termination, the Optionee is not

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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 Optionee 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.

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option 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 Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, on the date of termination, the Optionee 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 Optionee 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.

(d) Death of Optionee. If an Optionee dies while a Service Provider, the Option may be exercised within such period of time as is specified in the Option Agreement (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee'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 Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, at the time of death, the Optionee is not vested as to his or her entire Option,

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the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. The Option may be exercised by the executor or administrator of the Optionee's estate or, if none, by the person(s) entitled to exercise the Option under the Optionee'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.

(e) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares an Option previously granted based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically, by means of a Notice of Grant, of the terms, conditions and restrictions related to the offer, including the number of Shares that the offeree shall be entitled to purchase, the price to be paid, and the time within which the offeree must accept such offer. The offer shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the Administrator.

(b) Issuance of Shares. After payment, the Shares purchased shall be duly issued; provided, however, that the Administrator may require that the purchaser make adequate provision for any federal and state withholding obligations of the Company as a condition to the purchaser purchasing such Shares.

(c) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or Disability). The purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at a rate determined by the Administrator.

(d) Other Provisions. The Restricted Stock Purchase Agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(e) Rights as a Stockholder. Once the Stock Purchase Right is exercised, the purchaser shall have the rights equivalent to those of a stockholder, and shall be a stockholder when his or her purchase is entered upon

the records of the duly authorized transfer agent of the Company. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 13 of the Plan.

12. Non-Transferability of Options and Stock Purchase Rights. Unless determined otherwise by the Administrator, an Option or Stock Purchase Right 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 Optionee, only by the Optionee. If the Administrator makes an Option or Stock Purchase Right transferable, such Option or Stock Purchase Right shall contain such additional terms and conditions as

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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 covered by each outstanding Option and Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other 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 Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option until ten (10) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option or Stock Purchase Right 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 Option or Stock Purchase Right 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 substantially all of the assets of the Company, each outstanding Option and Stock Purchase Right shall 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 a Parent or Subsidiary of the successor corporation refuses to assume or substitute for the Option or Stock Purchase Right, the Optionee shall fully vest in and have the right to exercise the Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option or Stock Purchase Right shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the 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 the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the Option or Stock Purchase Right, 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.

14. Date of Grant. The date of grant of an Option or Stock Purchase Right shall be, for all purposes, the date on which the Administrator