

IRIDEX CORP
Form DEF 14A
April 29, 2005

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SCHEDULE 14A INFORMATION

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

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to Rule 14a-12

IRIDEX CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

☐ No fee required.

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

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

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 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

- o Fee paid previously with preliminary materials.
 - o 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 1, 2005

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 1, 2005 at 10:00 a.m., Pacific Daylight Savings Time, at the Company's principal executive offices located at 1212 Terra Bella Avenue, Mountain View, California 94043 for the following purposes:

1. To elect six (6) directors to serve for the ensuing year or until their successors are elected and qualified (Proposal 1);
2. To approve the amendment and restatement of the Company's 1998 Stock Plan (Proposal 2);
3. To ratify the appointment of PricewaterhouseCoopers LLP as independent registered public accountants of the Company for the fiscal year ending December 31, 2005 (Proposal 3); and
4. To transact such other business as may properly be brought before the meeting and any adjournment(s) thereof.

Stockholders of record at the close of business on April 8, 2005 shall be entitled to notice of and to vote at the Annual Meeting.

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

By Order of the Board of Directors of IRIDEX
Corporation,

Mountain View, California
April 29, 2005

Theodore A. Boutacoff
President and Chief Executive Officer

YOUR VOTE IS IMPORTANT

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

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**IRIDEX CORPORATION
1212 Terra Bella Avenue
Mountain View, CA 94043**

PROXY STATEMENT

FOR THE 2005 ANNUAL MEETING OF STOCKHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The accompanying Proxy is solicited on behalf of the Board of Directors (the "Board") of IRIDEX Corporation, a Delaware corporation (the "Company" or "IRIDEX"), for use at the Annual Meeting of Stockholders (the "Annual Meeting") to be held at the principal executive offices of the Company located at 1212 Terra Bella Avenue, Mountain View, California 94043 on Wednesday, June 1, 2005, at 10:00 a.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 January 1, 2005, including financial statements, were mailed on or about April 29, 2005 to all stockholders entitled to vote at the meeting.

Record Date and Share Ownership

Stockholders of record at the close of business on April 8, 2005 (the "Record Date") are entitled to notice of and to vote at the meeting and at any adjournment(s) thereof. At the Record Date, 7,431,798 shares of the Company's Common Stock, par value \$0.01 per share, were issued and outstanding and held of record by approximately 73 stockholders.

Revocability of Proxies

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

Voting

Each stockholder is entitled to one vote for each share of Common Stock held by such stockholder. Holders of the Company's Common Stock are the only securityholders of the Company entitled to vote at the Annual Meeting. The stockholders may not cumulate votes in the election of directors.

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Solicitation of Proxies

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

Quorum; Abstentions; Broker Non-Votes

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

Shares that are timely voted by telephone, the Internet or a properly dated, executed and returned proxy card will be voted at the Annual Meeting in accordance with the instructions of the stockholder. If no specific instructions are given, the shares will be voted (i) FOR the election of the nominees for directors set forth herein; (ii) FOR the ratification of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2005; (iii) FOR the approval of the amendment and restatement of the Company's 1998 Stock Plan; and (iv) in the proxy holder's discretion, upon such other business as may properly come before the Annual Meeting or any adjournment thereof.

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

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

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

Stockholders of the Company may submit proposals on matters appropriate for stockholder action at meetings of the Company's stockholders, including nominations for the election of directors, in accordance with Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). The deadline for submitting all proposals by any stockholder to be presented at the 2006 Annual Meeting of Stockholders must be received by the Company at its principal executive offices, attention: Secretary, no later

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than December 30, 2005 and must otherwise be in compliance with applicable laws and regulations in order to be considered for inclusion in the proxy statement and form of proxy relating to that meeting.

In addition, the Company's Bylaws establish an advance notice procedure with regard to certain matters, including stockholder proposals not included in the Company's proxy statement, to be brought before an annual meeting of stockholders. To be properly brought before an annual meeting of stockholders outside the processes of Rule 14a-8, notice of nominations for the election of directors or other business proposals must be delivered in writing to the Secretary of the Company at the principal executive offices of the Company no later than December 30, 2005. However, in the event the date of the 2006 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 2005 Annual Meeting of Stockholders, notice by the stockholder to be timely must be delivered in writing not later than (i) 60 days before the 2006 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.

If a stockholder intends to submit a proposal at the Company's 2006 Annual Meeting of Stockholders which is not eligible for inclusion in the proxy statement relating to the meeting, and the stockholder fails to give the Company notice of the proposal on or prior to December 30, 2005 and in accordance with the requirements set forth in the Exchange Act, then the proxy holders will be allowed to use their discretionary authority with regard to proxies delivered in connection with the 2006 Annual Meeting of Stockholders when and if the proposal is raised at the Company's Annual Meeting in 2006.

Stockholder Information

A copy of the Company's Annual Report on Form 10-K for the year ended January 1, 2005, including financial statements and schedules, is enclosed with these proxy solicitation materials. In compliance with Rule 14a-3 promulgated under the Exchange Act, the Company hereby undertakes to provide without charge to each person upon written request, a copy of the Company's Annual Report on Form 10-K for the year ended January 1, 2005, 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.

If you share an address with another stockholder, you may receive only one set of proxy materials (including our Annual Report on Form 100K and proxy statement) unless you have previously provided contrary instructions. If you wish to receive a separate set of proxy materials, please request the additional copies by contacting us as instructed in the previous sentence, or by contacting our Investor Relations Department at (650) 940-4700. Similarly, if you share an address with another stockholder and have received multiple copies of our proxy materials, you may contact us at the address or telephone number specified above to request that only a single copy of these materials be delivered to your address in the future.

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A board of six directors is to be elected at the Annual Meeting. Dr. Hammond and Messrs. Boutacoff, Donovan, Anderson and Fitch are elected members of the Board and are standing for re-election. In September 2004, Dr. Garrettson became a member of the Board following his nomination by the Compensation and Nominating Committee and the unanimous approval of the entire Board. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the election of the six 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, 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, and certain information regarding, the nominees, as of April 8, 2005 are set forth below:

Name of Nominee	Age	Principal Occupation	Director Since
Theodore A. Boutacoff	57	President, Chief Executive Officer and Director of the Company	1989
James L. Donovan	67	Vice President, Corporate Business Development and Director of the Company	1989
Donald L. Hammond, D.Sc. (1)(2)(4)	77	Director of the Company, Chairman of the Board	1990
Robert K. Anderson (1)	69	Director of the Company	1999
Sanford Fitch (1)(2)(3)	64	Director of the Company	2004
Garrett A. Garrettson, Ph.D. (1)(2)(4)	61	Director of the Company, Consultant	2004

- (1) Board has made affirmative determination that member is independent as defined under the listing standards of the Nasdaq Stock Market.
- (2) Member of the Audit and Corporate Governance Committee. Dr. Hammond will join this committee effective as of June 1, 2005.
- (3) Audit committee financial expert as defined in the rules of the Securities and Exchange Commission.
- (4) Member of the Compensation and Nominating Committee.

Theodore A. Boutacoff co-founded the Company and since February 1989 has served as its President, Chief Executive Officer and a member of its Board of Directors. Mr. Boutacoff received a B.S. in Civil Engineering from

Stanford University.

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James L. Donovan co-founded the Company, 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.

Donald L. Hammond, D.Sc., has served as a director of the Company since 1990. Dr. Hammond has been retired since 1989. From 1966 to 1989, Dr. Hammond was the Director of Hewlett-Packard Laboratories, a computer and instrument company. Dr. Hammond received a B.S., an M.S. and an (Hon) D.Sc. in Physics from Colorado State University.

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.

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

Garrett A. Garrettson, Ph.D. has served as a director of the Company since 2004. Dr. Garrettson is currently a consultant and until recently was the President and Chief Executive Officer of ClairVoyante Laboratories, a privately held company that develops and licenses proprietary intellectual property to flat panel display manufacturers. Prior to this, Dr. Garrettson was affiliated with Spectrian Corporation, a manufacturer of high power radio frequency transistors and amplifiers for wireless network equipment. He served as President and Chief Executive Officer from 1996 to 2000 and as Chairman of the Board from 2000 to 2002. Before joining Spectrian, Dr. Garrettson served as the President and Chief Executive Officer of Censtor Corporation from 1993 to 1996, a developer of contact magnetic recording head disc technology for the data storage industry. From 1989 to 1993, Dr. Garrettson was the Vice President of Strategic Marketing, Corporate Development and Technology at Seagate Technology, a maker of hard disc drives and storage systems. Dr. Garrettson has also served as the Vice President of the Minneapolis Data Storage Operations at Imprimis Technology, and as a Laboratory Director at Hewlett Packard. Dr. Garrettson has served on boards of six public companies and is currently a director of Catalyst Semiconductor and is on the advisory boards of GSI Lumonics, Diamond Head Ventures and ClairVoyante Laboratories. Dr. Garrettson has an M.S. in Engineering Physics as well as a Ph.D. in Mechanical Engineering from Stanford University

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 six candidates receiving the

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highest number of affirmative votes of shares represented and voted on this proposal at the meeting will be elected directors of the Company. Votes withheld from a nominee will be counted for purposes of determining the presence or absence of a quorum but because directors are elected by a plurality vote, will have no impact once a quorum is established. See Information Concerning Solicitation and Voting Quorum; Abstentions; Broker Non-Votes.

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

Board Meetings and Committees

The Board held a total of six (6) meetings during the fiscal year ended January 1, 2005. No director serving during the fiscal year attended fewer than 75% of the aggregate of all meetings of the Board and the committees of the Board upon which such director served. The Board has two standing committees, the Audit and Corporate Governance Committee and the Compensation and Nominating Committee. Dr. Makower has chosen not to stand for re-election at the Annual Meeting of Stockholders.

Audit and Corporate Governance Committee. The Audit and Corporate Governance Committee of the Board consisted of Mr. Fitch and Dr. Makower, and Dr. Garrettson during the fiscal year ended January 1, 2005. The Audit and Corporate Governance Committee held eleven (11) meetings during the last fiscal year. Mr. Fitch is chairman of the Audit and Corporate Governance Committee. Dr. Garrettson became a member of the Audit and Corporate Governance Committee in September 2004 and replaced Mr. Anderson as a member of the Audit and Corporate Governance Committee. Dr. Hammond will be joining the Audit and Corporate Governance Committee effective as of June 1, 2005 and will be replacing Dr. Makower, who is not standing for re-election. The Board has determined that each member of the Audit and Corporate Governance Committee is independent as defined under the listing standards of The Nasdaq Stock Market and that Mr. Fitch is an audit committee financial expert as defined in rules of the Securities and Exchange Commission (the SEC). Among other things, the Audit and Corporate Governance Committee reviews and advises the Board regarding the Company's accounting matters and is responsible for appointing and overseeing the work of the independent public accountants, pre-approving audit and non-audit services to be provided by the independent public accountants, reviewing and evaluating the accounting principles being applied to the Company's financial reports, reviewing and making recommendations regarding the composition and mandate of Board committees, developing overall governance guidelines, and overseeing the performance and compensation of the Board. The Audit and Corporate Governance Committee adopted a written charter in April 2004, a copy of which is available on our website at www.iridex.com.

Compensation and Nominating Committee. The Compensation and Nominating Committee of the Board, which consisted of Dr. Hammond, Dr. Makower and Dr. Garrettson, during the fiscal year ended January 1, 2005, held two (2) meetings during the last fiscal year. Dr. Hammond is chairman of the Compensation and Nominating Committee. Dr. Garrettson became a member of the Compensation and Nominating Committee in February 2005. As of June 1, 2005, this committee will consist of Dr. Hammond and Dr. Garrettson. The Board has determined that each member of the Compensation and Nominating Committee is independent as defined under the listing standards of The Nasdaq Stock Market. Among other things, the Compensation and Nominating Committee reviews and advises the Board regarding all forms of compensation to be provided to the officers, employees, directors and consultants of the Company, develops general criteria regarding the qualifications and selection of Board members, and recommends candidates for election to the Board. It is the policy of the Compensation and Nominating Committee to consider nominees for the Board submitted by the stockholders of the Company. For more information regarding the submission of nominees for the Board, see the discussion in Corporate Governance Matters. The Compensation and

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Nominating Committee adopted a written charter in April 2004, a copy of which is available on our website at www.iridex.com.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

The Compensation and Nominating Committee consisted of Dr. Hammond, Dr. Makower and Dr. Garrettson, during the fiscal year ended January 1, 2005. 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 and Nominating 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 and Nominating 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 or its Compensation and Nominating Committee.

Director Compensation

Members of the Board of Directors receive \$1,500 per Board meeting attended. The Chairman of the Board receives \$2,000 per Board meeting attended. Members of the Audit and Corporate Governance Committee and the Compensation and Nominating Committee receive \$1,000 per committee meeting attended, and the Chairman of each of these committees receives \$1,500 per committee meeting attended. In addition, directors are also 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 220,000 shares of Common Stock are reserved for issuance thereunder. As of April 8, 2005, options to purchase 247,500 shares have been issued under the Director Plan and 57,163 shares are available for future issuance thereunder. The Director Plan provides for the automatic and 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 first 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 1st 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 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. The Director Plan expires in October 2005.

During the Company's 2004 fiscal year, Mr. Anderson, Dr. Hammond and Dr. Makower each received automatic and non-discretionary grants of nonstatutory stock options to purchase 3,750 shares of the Company's Common Stock under the Director Plan as compensation for their services as directors. These stock options were granted with an exercise price of \$7.38 per share, are subject to vesting as described in the previous paragraph and have a term of 10 years. On April 5, 2004, the date on which he first became a director, Mr. Fitch received an automatic and non-discretionary grant of a nonstatutory stock option to purchase 11,250 shares of the Company's Common Stock under the Director Plan. This stock option was granted with an exercise price of \$9.06, is subject to vesting as described in the previous paragraph and has a term of 10 years. On September 22, 2004, the date on which he first became a director, Dr. Garrettson

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received an automatic and non-discretionary grant of a nonstatutory stock option to purchase 11,250 shares of the Company's Common Stock under the Director Plan. This stock option was granted with an exercise price of \$6.39, is subject to vesting as described in the previous paragraph and has a term of 10 years. In addition, on July 1, 2005, Dr. Garrettson, Dr. Hammond, and Messrs. Anderson and Fitch will each automatically be granted a Subsequent Option 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.

The 1998 Stock Plan was adopted by the Board 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 purchase shares of the Company's Common Stock to employees, directors and consultants of the Company. The Company anticipates that following the expiration of the Director Plan in October 2005, future equity compensation granted to the Company's non-employee directors will be granted under the 1998 Stock Plan.

Corporate Governance Matters

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

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

Attendance at Annual Stockholder Meetings by the Board of Directors. The Company has adopted a formal policy regarding attendance by members of the Board at the Company's annual meeting of stockholders. The Company's policy is that it encourages, but does not require, directors to attend. Dr. Hammond, Dr. Makower and Messrs. Boutacoff, Fitch, Donovan and Anderson attended the Company's 2004 Annual Meeting of Stockholders.

Process for Recommending Candidates for Election to the Board of Directors. The Compensation and Nominating Committee is responsible for, among other things, determining the criteria for membership to the Board and recommending candidates for election to the Board. It is the policy of the Committee to consider recommendations for candidates to the Board from stockholders. Stockholder recommendations for candidates to the Board must be directed in writing to IRIDEX Corporation, Corporate Secretary, 1212 Terra Bella Avenue, Mountain View, CA 94043 and must include the candidate's name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and the Company within the last three years, and evidence of the nominating person's ownership of the Company's Common Stock.

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

The Compensation and Nominating Committee regularly reviews the current composition and size of the Board.

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

While the Compensation and Nominating Committee has not established specific minimum qualifications for director candidates, the Compensation and Nominating Committee believes that candidates and nominees must reflect a Board of Directors that is comprised of directors who (1) are predominantly independent, (2) are of high integrity, (3) have qualifications that will increase overall Board of Directors effectiveness and (4) meet other requirements as may be required by applicable rules, such as financial literacy or financial expertise with respect to audit and corporate governance committee members.

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

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

The Compensation and Nominating Committee will apply these same principles when evaluating Board of Directors candidates who may be elected initially by the full Board of Directors to fill vacancies or add additional directors prior to the annual meeting of stockholders at which directors are elected.

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

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

The Code of Business Conduct and Ethics is designed to promote honest and ethical conduct, the compliance with all applicable laws, rules and regulations and to deter wrongdoing. The Code of Business Conduct and Ethics is also aimed at ensuring that information we provide to the public (including our filings with and submissions to the SEC) is accurate, complete, fair, relevant, timely and understandable. A copy of the formally adopted Code of Business Conduct and Ethics is available on our website at www.iridex.com.

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We intend to disclose future amendments to certain provisions of the Code of Business Conduct and Ethics, or waivers of such provisions granted to directors and executive officers, on our web site at www.iridex.com pursuant to applicable requirements of the SEC and The Nasdaq Stock Market.

Equity Compensation Plan Information

As of April 8, 2005, there were 1,894,499 shares subject to issuance upon exercise of outstanding options or awards under all of our equity compensation plans referred to in the table below, at a weighted average exercise price of \$5.191, and with a weighted average remaining life of 5.94 years. As of April 8, 2005, there were 337,153 shares available for future issuance under those equity compensation plans.

The following table summarizes information, as of January 1, 2005, with respect to shares of the Company's Common Stock that may be issued under its existing equity compensation plans:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	1,823,392(1)	\$ 5.177	513,351(2)
Equity compensation plans not approved by stockholders	1,823,392	\$ 5.177	513,351
Total			

- (1) Includes 1,215,478 options to purchase shares outstanding under the 1998 Stock Plan, 135,000 options to purchase shares outstanding under the 1995 Director Option Plan and 472,914 options to purchase shares outstanding under the Amended and Restated 1989 Incentive Stock Plan.
- (2) Includes 370,738 options available for future issuance under the 1998 Stock Plan, 57,163 options available for future issuance under the 1995 Director Option Plan, 55,450 shares issuable under the 1995 Employee Stock Purchase Plan and 30,000 shares issuable under the 2005 Employee Stock Purchase Plan.

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PROPOSAL TWO

APPROVAL OF THE AMENDED AND RESTATED 1998 STOCK PLAN

The stockholders are being asked to approve the Company's amended and restated 1998 Stock Plan (the "Plan"). The Company's Board of Directors (the "Board") believes that the fundamental objectives of a long-term incentive compensation program are to align the interests of management and the stockholders and to create long-term shareholder value. The Board believes that the amended and restated Plan increases the Company's ability to achieve these objectives by allowing for several different forms of long-term incentive awards, which will help us recruit, reward, motivate and retain talented personnel. Imminent changes in the equity compensation accounting rules, which will become effective for us on July 1, 2005, also make it important for us to have greater flexibility under the Plan. As the new equity compensation accounting rules come into effect, competitive equity compensation practices may change materially, especially as they pertain to the use of equity compensation vehicles other than stock options. In April 2005, the Board approved the amended and restated Plan, subject to the approval of a majority of the shares of the Company's Common Stock that are present in person or by proxy and entitled to vote at the Annual Meeting. If the stockholders approve the amended and restated Plan, it will replace the current version of the Plan. Otherwise, the current version of the Plan will remain in effect. Our named executive officers and directors have an interest in this proposal.

Changes being made to the Plan

The following is a summary of changes being made to the Plan:

The stockholders are being asked to approve an increase to the number of shares of Common Stock authorized for issuance under the Plan from 1,700,000 shares to 1,900,000 shares, an increase of 200,000 shares.

The current Plan allows for the grant of stock options and stock purchase rights (through which awards of restricted stock can be made). The proposed amended Plan would also add awards of stock options and restricted stock and would permit the award of stock appreciation rights, restricted stock units, performance shares, and performance units.

The proposed amended Plan prohibits the grant of stock option or stock appreciation right awards with an exercise price less than fair market value of

Common Stock on the date of grant.

The proposed amended Plan also generally prohibits the re-pricing of stock options or stock appreciation rights, or the cancellation of such awards in exchange for new awards with a lower exercise price, unless approved by stockholders. Exceptions to this prohibition are for events such as acquisitions, stock splits and certain other capital transactions where adjustments may be made to preserve the original economic value of the awards.

The Company believes that full value awards can be an important and effective part of an equity compensation strategy consistent with best practices and can help limit stockholder dilution related to the Company's equity compensation program. However, the Company recognizes that the issuance of full value awards can potentially be more costly to its stockholders than appreciation awards such as stock options or stock appreciation rights. Accordingly, any shares subject to an award with an exercise or purchase price less than fair market value on the date of grant (e.g., shares subject to restricted stock, performance share or performance unit awards) will

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be counted against the proposed amended Plan's share reserve as two shares for every one share subject to such award. Correspondingly, to the extent that a share that counted as two shares against the proposed amended Plan reserve at the time of grant pursuant to the preceding sentence is recycled back into the proposed amended Plan (e.g., upon award termination or share repurchase), the proposed amended Plan will be credited with two shares that will thereafter be available for future issuance under the proposed amended Plan.

The Company recognizes that depleting the proposed amended Plan's share reserve by only the net shares issued pursuant to the grant of a stock-settled stock appreciation right potentially makes the Plan more costly to its stockholders. Accordingly, each share subject to a stock settled stock appreciation right at the time of grant will count as a full share against the proposed amended Plan share reserve, rather than only the net shares issued upon exercise of the stock appreciation right.

The proposed amended Plan has also been amended to add specific performance criteria that the Plan administrator may use to establish performance objectives upon achievement of which will allow certain awards to vest or be issued, which in turn will allow the Company to receive income tax deductions under Section 162(m) of the Code.

The proposed amended Plan does not differ from the current version of the Plan in any other material respect.

The Company believes strongly that the approval of the proposed amended Plan is essential to the Company's continued success. The Company's employees are its most valuable assets. Stock options and other awards such as those provided under the proposed amended Plan are vital to the Company's ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which the Company must compete. Such awards also are crucial to our ability to motivate employees to achieve the Company's goals. For the reasons stated above, the stockholders are being asked to approve the amended and restated Plan.

Summary of the amended and restated 1998 Stock Plan

The following paragraphs provide a summary of the principal features of the Plan and its operation. The following summary is qualified in its entirety by reference to Plan as set forth in Appendix A.

The Plan provides for the grant of the following types of incentive awards: (i) stock options; (ii) stock appreciation rights; (iii) restricted stock, (iv) restricted stock units, and (v) performance units and performance shares, which are referred to individually as an Award. Those who will be eligible for Awards under the plan include employees, directors and consultants who provide services to the Company and its parent and subsidiary companies.

As of April 8, 2005, approximately 114 employees, directors and consultants were eligible to participate in the Plan.

Number of Shares of Common Stock Available Under the Plan. If stockholders approve Proposal 2, a total of 1,900,000 shares of the Company's Common Stock will be reserved for issuance under the Plan. As of April 8, 2005, 1,301,210 shares were subject to outstanding Awards granted under the Plan, with a weighted average exercise price of \$5.07 per share, and 279,990 shares remained available for any new Awards to be granted in the future. In addition, any shares subject to awards of restricted stock, restricted stock units, performance shares or performance units granted with an exercise price less than the fair market

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value on the date of grant will be counted against the share reserve as two shares for every one share subject to such award. Further, to the extent that a share that was subject to an award that counted as two shares against the Plan reserve pursuant to the preceding sentence is recycled back into the Plan, the Plan will be credited with two shares that will thereafter be available for issuance under the Plan. On the Record Date, the closing price in The Nasdaq National Market for the Company's Common Stock was \$5.55 per share. The Company's non-employee directors and its executive officers named in the Summary Compensation Table have an interest in this proposal because they are eligible to participate in the 1998 Plan.

If we experience a stock split, reverse stock split, stock dividend, spin-off, combination or reclassification of our shares, or any other change or increase or decrease in the number of issued shares effected without our receipt of consideration (except for certain conversions of convertible securities) appropriate adjustments will be made, subject to any required action by the Company's stockholders, to the number of shares available for issuance under the Plan, the number of shares covered by each outstanding Award, the price per share covered by each outstanding Award, and the numerical per-person share limits for each type of Award, as appropriate to reflect the stock dividend or other change.

Administration of the Plan. A committee of at least two non-employee members of the Company's Board of Directors (the Committee) administers the Plan. To make grants to certain of our officers and key employees, the members of the Committee must qualify as non-employee directors under Rule 16b-3 of the Securities Exchange Act of 1934, and as outside directors under Section 162(m) of the Internal Revenue Code (so that the Company can receive a federal tax deduction for certain compensation paid under the Plan). Subject to the terms of the Plan, the Committee has the sole discretion to select the employees, consultants, and directors who will receive Awards, determine the terms and conditions of Awards, and interpret the provisions of the Plan and outstanding Awards. The Committee may delegate any part of its authority and powers under the Plan to one or more directors and/or officers of the Company, but only the Committee itself can make Awards to participants who are executive officers of the Company.

Options. The Committee is able to grant nonqualified stock options and incentive stock options under the Plan. The Committee will determine the number of shares subject to each option, but no participant will be able to be granted options covering more than 200,000 shares during any of the Company's fiscal years, except that a participant may be granted an option covering up to an additional 400,000 shares in connection with his or her initial service with the Company. The Committee will determine the exercise price of options granted under the Plan, provided the exercise price must at least be equal to the fair market value of the Company's common stock on the date of grant. In addition, the exercise price of an incentive stock option granted to any participant who owns more than 10% of the total voting power of all classes of the Company's outstanding stock must be at least 110% of the fair market value of the common stock on the grant date.

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

After termination of service with the Company, a participant will be able to exercise the vested portion of his or her option for the period of time stated in the Award agreement. If no such period of time is stated in a participant's option agreement, a participant will generally be able to exercise his or her option for (i) three months following his or her termination for reasons other than death or disability, and (ii) one year following his or her termination due to death or disability. In no event will an option be able to be exercised later than the expiration of its term.

Stock Appreciation Rights. Assuming the stockholders approve this Proposal 2, the Committee will be able to grant stock appreciation rights either alone or in tandem with stock options. A stock appreciation

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right is the right to receive the appreciation in fair market value of common stock between the exercise date and the date of grant. The Company can pay the appreciation in either cash or shares of common stock. Stock appreciation rights will become exercisable at the times and on the terms established by the Committee, subject to the terms of the Plan. No participant will be granted stock appreciation rights covering more than 200,000 shares during any fiscal year, except that a participant may be granted stock appreciation rights covering up to an additional 400,000 shares in connection with his or her initial service with the Company.

After termination of service with the Company, a participant will be able to exercise the vested portion of his or her stock appreciation right for the period of time stated in the Award agreement. If no such period of time is stated in a participant's award agreement, a participant will generally be able to exercise his or her stock appreciation right for (i) three months following his or her termination for reasons other than death or disability, and (ii) one year following his or her termination due to death or disability. In no event will a stock appreciation right be exercised later than the expiration of its term.

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

Restricted Stock Units. Assuming the stockholders approve this Proposal 2, the Committee will be able to grant Awards of restricted stock units. Awards of restricted stock units are rights to acquire or purchase shares of Company common stock. Restricted stock units vest in accordance with the terms and conditions established by the Committee in its sole discretion. For example, the Committee may set restrictions based on the achievement of specific performance goals. Awards of restricted stock units 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. The Committee will determine the number of units granted pursuant to an Award of restricted stock units, but no participant will be granted more than 150,000 units during any fiscal year, except that a participant may be granted up to an additional 150,000 units in connection with his or her initial employment with the Company.

Performance Units and Performance Shares. Assuming the stockholders approve this Proposal 2, the Committee will be able to grant performance units and performance shares, which are Awards that will result in a payment to a participant only if the performance goals or other vesting criteria the Committee may establish are achieved or the Awards otherwise vest. The Committee will establish organizational, individual performance goals or other vesting criteria in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. No participant will receive performance units with an initial value greater than \$1,000,000 and no participant will receive more than 150,000 performance shares during any fiscal year, except that a participant may be granted performance shares covering up to an additional 150,000 shares in connection with his or her initial service with the Company. Performance units will have an initial dollar value established by the Committee prior to the grant date. Performance shares will have an initial value equal to the fair market value of a share of the Company's common stock on the grant date.

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Performance Goals. As determined by the Committee, the performance goals applicable to an Award may provide for a targeted level or levels of achievement using one or more of the following measures: (i) cash position, (ii) earnings per share, (iii) individual objectives, (iv) net income, (v) operating income, (vi) return on assets, (vii) return on equity, (viii) return on sales, (ix) revenue, and (x) total stockholder return. The performance goals may differ from participant to participant and from Award to Award and may be stated in absolute terms or relative to comparison companies or indices to be achieved during a period of time.

Transferability of Awards. The Plan generally will not allow for the transfer of Awards, and all rights with respect to an Award granted to a participant generally will be available during a participant's lifetime only to the participant.

Merger or Sale of Assets. In the event of our merger with or into another corporation, or the sale of all or substantially all of our assets, each outstanding Award will be assumed or substituted for by the successor corporation (or a parent or subsidiary or such successor corporation). If there is no assumption or substitution of outstanding Awards, the Committee will provide notice to the recipient that he or she has the right to exercise the option and stock appreciation right as to all of the shares subject to the Award, all restrictions on restricted stock will lapse, and all performance goals or other vesting requirements for performance shares and units will be deemed achieved, and all other terms and conditions met. In such event, the Committee shall notify the participant that the Award is fully exercisable for a period of time as the Committee may determine from the date of such notice and that the Award will terminate upon expiration of such period.

Amendment and Termination of the Plan. The Committee will have the authority to amend, suspend or terminate the Plan, except that stockholder approval will be required for any amendment to the plan to the extent required by any applicable law, regulation or stock exchange rule. Any amendment, suspension or termination will not, without the consent of the participant, materially adversely affect any rights or obligations under any Award previously granted.

Number of Awards Granted to Employees, Consultants, and Directors

The number of awards that an employee, director or consultant may receive under the Plan is in the discretion of the Committee and therefore cannot be determined in advance. To date, only stock options have been granted under the Plan. The following table sets forth (a) the aggregate number of shares subject to options granted under the Plan during the fiscal year ended January 1, 2005 and (b) the average per share exercise price of such options.

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Name of Individual or Group	Number of Options Granted	Average Per Share Exercise Price
Theodore A. Boutacoff		
Eduardo Arias		
Larry Tannenbaum		
Timothy S. Powers		
All executive officers, as a group		
All directors who are not executive officers, as a group		
All employees who are not executive officers, as a group	174,250	\$ 6.18
Federal Tax Aspects		

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

Nonqualified Stock Options. No taxable income is reportable when a nonqualified stock option with an exercise price equal to the fair market value of the Company's stock is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value (on the exercise date) of the shares purchased over the exercise price of the option. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Incentive Stock Options. No taxable income is reportable when an incentive stock option is granted or exercised (except for purposes of the alternative minimum tax, in which case taxation is the same as for nonqualified stock options). If the participant exercises the option and then later sells or otherwise disposes of the shares more than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two- or one-year holding periods described above, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option.

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

Restricted Stock, Restricted Stock Units, Performance Units and Performance Shares. A participant generally will not have taxable income at the time an Award of restricted stock, restricted stock units, performance shares or performance units are granted. Instead, he or she will recognize ordinary income in the first taxable year in which his or her interest in the shares underlying the Award becomes either (i) freely transferable or (ii) no longer subject to substantial risk of forfeiture. However, the recipient of a restricted

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stock Award may elect to recognize income at the time he or she receives the Award in an amount equal to the fair market value of the shares underlying the Award (less any cash paid for the shares) on the date the Award is granted.

Tax Effect for the Company. The Company generally will be entitled to a tax deduction in connection with an Award under the Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonqualified stock option). Special rules limit the deductibility of compensation paid to the Company's Chief Executive Officer and to each of its four most highly compensated executive officers. Under Section 162(m) of the Internal Revenue Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, The Company can preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met. These conditions include stockholder approval of the Plan, setting limits on the number of Awards that any individual may receive and for Awards other than certain stock options, establishing performance criteria that must be met before the Award actually will vest or be paid. The Plan has been designed to permit the Committee to grant Awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting the Company to continue to receive a federal income tax deduction in connection with such Awards.

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

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. Votes withheld and broker non-votes will be counted for purposes of determining the presence or absence of a quorum, but will not be counted as Votes Cast on this subject. Brokers are prohibited from voting in favor of this proposal under NYSE regulations unless the beneficial holder of such shares specifically instructs the broker or other nominee to vote in favor of the amendment and restatement of the 1998 Stock Plan. See Information Concerning Solicitation and Voting – Quorum; Abstentions; Broker Non-Votes.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE 1998 STOCK PLAN

Table of Contents**PROPOSAL THREE****RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS****Introduction**

The Audit and Corporate Governance Committee has appointed PricewaterhouseCoopers LLP, independent registered public accountants, to audit the financial statements of the Company for the fiscal year ending December 31, 2005, and recommends that stockholders vote for ratification of such appointment. PricewaterhouseCoopers LLP, previously Coopers & Lybrand, has served as the Company's independent registered public accounting firm since 1993. 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 has determined that it is desirable to request approval of this selection by the stockholders. Notwithstanding the approval of this selection by the stockholders, the Audit and Corporate Governance Committee, in its discretion, may direct the appointment of a new independent registered public accounting firm at any time during the year, if the Audit and Corporate Governance Committee feels that such a change would be in the best interest of the Company and its stockholders. In the event of a negative vote on ratification, the Audit and Corporate Governance Committee will reconsider its selection.

Fees Billed To Company By PricewaterhouseCoopers LLP During Fiscal 2004

The following table presents fees (in thousands) billed for professional audit services and other services rendered to the Company by PricewaterhouseCoopers, LLP for the fiscal years ended January 1, 2005 and January 3, 2004.

	Fiscal 2004	Fiscal 2003
Audit Fees (1)	\$ 168	\$ 140
Audit-Related Fees (2)		0
Tax Fees (3)		54
All Other Fees (4)	9	0
Total	\$ 177	\$ 194

- (1) Audit Fees consisted of fees for professional services rendered for the audit of the Company's annual financial statements included in the Company's Annual Reports on Form 10-K and for the review of the financial statements included in the Company's Quarterly Reports on Form 10-Q, as well as reviews of regulatory and statutory filings.
- (2) This category consists of assurance and related services by the Company's independent auditor that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported above under Audit Fees. PricewaterhouseCoopers LLP did not perform any such services for the Company in fiscal years 2004 or 2003.
- (3) Tax Fees consisted of fees billed for tax compliance and sales tax consultation services.
- (4)

All Other Fees consisted of fees attributable to PricewaterhouseCoopers LLP's review of the Company's previous filings under the Exchange Act, unrelated to its audit of the Company's financial statements.

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Pre-Approval of Audit and Non-Audit Services

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

The Audit and Corporate Governance Committee has determined that the provision of all fees identified above under the captions "Audit-Related Fees", "Tax Fees" and "All Other Fees" that were billed by PricewaterhouseCoopers LLP is compatible with maintaining PricewaterhouseCoopers LLP's independence and has approved these non-audit services in accordance with its charter and applicable laws, rules and regulations.

Required Vote

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

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS
VOTE FOR RATIFICATION OF THE APPOINTMENT OF
PRICEWATERHOUSECOOPERS LLP**

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

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

Name and Address	Beneficial Ownership(1)	
	Number of Shares	Percent of Total
Wasatch Advisors, Inc. 150 Social Hall Avenue Salt Lake City, UT 84111 (2)	932,398	12.55%
David W. Tice & Associates, LLC Prudent Bear Funds, Inc. 8140 Walnut Hill Lane, Suite 300 Dallas, TX 75231 (3)	374,241	5.04%
Theodore A. Boutacoff (4)	279,945	3.73%
Eduardo Arias (5)	241,435	3.22%
Robert K. Anderson (6)	170,828	2.29%
James Donovan (7)		