

IRIDEX CORP
Form DEF 14A
May 04, 2009

SCHEDULE 14A INFORMATION

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

Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

IRIDEX CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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

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:

.. Fee paid previously with preliminary materials.

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

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

IRIDEX CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on June 17, 2009

TO THE STOCKHOLDERS:

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

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

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

By Order of the Board of Directors of IRIDEX Corporation,

Mountain View, California
May 4, 2009

Theodore A. Boutacoff
President and Chief Executive Officer

YOUR VOTE IS IMPORTANT

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

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

The Proxy Statement and Annual Report on Form 10-K

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

IRIDEX CORPORATION

1212 Terra Bella Avenue

Mountain View, CA 94043

PROXY STATEMENT

FOR THE 2009 ANNUAL MEETING OF STOCKHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

General

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

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

Record Date and Share Ownership

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

Voting

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

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

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

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

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

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

Revocability of Proxies

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

Solicitation of Proxies

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

Quorum; Abstentions; Broker Non-Votes

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

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

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

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

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

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

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

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

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

Stockholder Information

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

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

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

PROPOSAL ONE
ELECTION OF DIRECTORS**Nominees**

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

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

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

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

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

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

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

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

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

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

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

Required Vote

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

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

CORPORATE GOVERNANCE MATTERS

Independence of the Board of Directors

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

Board Meetings and Committees

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

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

Fiscal 2008 Committees

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

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

Fiscal 2009 Committees

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

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

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

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

Attendance at Annual Stockholder Meetings by the Board of Directors

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

Process for Recommending Candidates for Election to the Board of Directors

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

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

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

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

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

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

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

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

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

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

Contacting the Board of Directors

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

Code of Business Conduct and Ethics

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

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

PROPOSAL TWO

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC

ACCOUNTANTS

Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

Pre-Approval of Audit and Non-Audit Services

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

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

Required Vote

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

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

PROPOSAL THREE

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

A ONE-TIME STOCK OPTION EXCHANGE PROGRAM

Introduction

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

Changes being made to the Plans

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

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

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

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

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

Reasons for implementing an exchange program

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

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

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

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

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

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

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

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

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

Implementation and mechanics of the exchange program

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

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

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

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

Eligible options

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

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

Eligible employees

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

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

Exchange ratios

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

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

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

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

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

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

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

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

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

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

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

Participation in the exchange program

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

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

Election to exchange under water options

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

Vesting of new options

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

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

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

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

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

Options granted prior to 2002 are not eligible for exchange.

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

Terms and conditions of the new options

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

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

Surrendered stock options

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

Potential modifications to the terms of the exchange program

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

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

U.S. Federal income tax consequences

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

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

Accounting treatment of new equity awards

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

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

Summary of the 2008 Equity Incentive Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Number of Awards Granted to Employees, Consultants, and Directors

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

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

Federal Tax Aspects

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Effect on the Company's Stockholders

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

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

Required Vote

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

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

PROPOSAL FOUR

APPROVAL OF SHARE RESERVE INCREASE UNDER 2008 EQUITY INCENTIVE PLAN

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

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

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

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

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

Summary of the 2008 Equity Incentive Plan

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

Number of Awards Granted to Employees, Consultants, and Directors

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

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

Federal Tax Aspects

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

Required Vote

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

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

EXECUTIVE OFFICERS

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

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

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

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

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

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

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

EXECUTIVE COMPENSATION

Compensation Philosophy

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

Role and Authority of the Compensation Committee

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

Executive Officer Compensation

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

Base Salary

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

Incentive Bonuses

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

2009 Incentive Plan

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

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

Stock Option Grants

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

2005 Employee Stock Purchase Plan

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

2008 Equity Incentive Plan

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

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

401(k) Plan

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

CEO Compensation

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

2008 Summary Compensation Table

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

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

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

Outstanding Equity Awards at 2008 Fiscal Year-End

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