

IRIDEX CORP  
Form DEF 14A  
April 27, 2012

## SCHEDULE 14A INFORMATION

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

#### Exchange Act of 1934

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

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

**IRIDEX CORPORATION**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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

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2) Aggregate number of securities to which transaction applies:

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

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4) Proposed maximum aggregate value of transaction:

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5) Total fee paid:

Fee paid previously with preliminary materials.

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

1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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**IRIDEX CORPORATION**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on June 13, 2012**

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of IRIDEX Corporation, a Delaware corporation (the Company), will be held on June 13, 2012 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 six (6) 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, Inc. as independent registered public accountants of the Company for fiscal year 2012 ending December 29, 2012 (Proposal Two);
  3. To amend the 2008 Equity Incentive Plan to increase the share reserve (Proposal Three); and
  4. To transact such other business as may properly be brought before the meeting and any adjournment(s) thereof.
- Stockholders of record at the close of business on April 16, 2012 shall be entitled to notice of and to vote at the Annual Meeting.

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

Mountain View, California  
April 27, 2012

By Order of the Board of Directors of IRIDEX Corporation,

Dominik Beck  
*President and Chief Executive Officer*

**YOUR VOTE IS IMPORTANT**

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

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**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE  
STOCKHOLDER MEETING TO BE HELD ON JUNE 13, 2012**

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

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

**IRIDEX CORPORATION**

**1212 Terra Bella Avenue**

**Mountain View, CA 94043**

**PROXY STATEMENT**

**FOR THE 2012 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 June 13, 2012, 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 fiscal year 2011 ended December 31, 2011, including financial statements, were mailed on or about May 3, 2012 to all stockholders entitled to vote at the meeting.

**Record Date and Share Ownership**

Stockholders of record at the close of business on April 16, 2012 (the **Record Date**) are entitled to notice of and to vote at the meeting and at any adjournment(s) thereof. At the Record Date, 8,966,235 shares of the Company's Common Stock, par value \$0.01 per share, were issued and outstanding and held of record by approximately 62 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

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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 13, 2012. 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 13, 2012. 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 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, Inc. as the independent registered public accounting firm of the Company for fiscal year 2012 ending December 29, 2012; (iii) FOR the amendment to the 2008 Equity Incentive Plan to increase the share reserve; and (iv) in the proxy holder's discretion, upon such other business as may properly come before the Annual Meeting or any adjournment thereof.

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



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

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

Stockholders of the Company may submit proposals on matters appropriate for stockholder action at meetings of the Company's stockholders, including nominations for the election of directors, in accordance with Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). All proposals by any stockholder to be presented at the 2013 Annual Meeting of Stockholders must be received by the Company at its principal executive offices, attention: Secretary, no later than December 28, 2012 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 2012 Annual Meeting of Stockholders is advanced by more than 30 days or delayed by more than 30 days (other than as a result of adjournment) after the one year anniversary of the 2012 Annual Meeting of Stockholders, notice by the stockholder to be timely must be delivered in writing not later than the close of business on the later of (i) the 60<sup>th</sup> day prior to such annual meeting or (ii) the 10<sup>th</sup> day after the day on which a public announcement of the date of such meeting is first made.

If a stockholder intends to submit a proposal at the Company's 2013 Annual Meeting of Stockholders which is not eligible for inclusion in the proxy statement relating to the meeting, and the stockholder fails to give the Company notice of the proposal on or prior to December 28, 2012 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 2013 Annual Meeting of Stockholders when and if the proposal is raised at the Company's Annual Meeting in 2013.

#### **Stockholder Information**

**A copy of the Company's Annual Report on Form 10-K for fiscal year 2011 ended December 31, 2011, 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 fiscal year 2011 ended December 31, 2011, not including exhibits. If a stockholder prefers a copy of the Annual Report on Form 10-K for fiscal year 2011 ended December 31, 2011 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.**

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

The Nominating and Governance Committee has nominated six (6) 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 27, 2012 are set forth below:

<b>Name of Nominee</b>	<b>Age</b>	<b>Principal Occupation</b>	<b>Director Since</b>
Dominik Beck, Ph.D.	47	President and Chief Executive Officer	2011
Sanford Fitch (1)(2)(3)(4)	71	Director of the Company	2004
Garrett A. Garrettson, Ph.D. (1)(2)(4)	68	Director of the Company	2004
James B. Hawkins (1)(2)(5)	56	Director of the Company	2007
William M. Moore (1)(5)	63	Chairman of the Board of Directors	2007
Ruediger Naumann-Etienne, Ph.D. (1)(4)(5)	65	Director of the Company	2009

- (1) The Board has made the 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.

*Dominik Beck, Ph.D.* has served as the President and Chief Executive Officer of the Company since October 2011. Prior to his appointment with the Company, Dr. Beck served as President and Chief Operating Officer of Haag-Streit U.S. Holdings, a U.S. subsidiary of Switzerland-based Haag-Streit International, a global maker of ophthalmology equipment from January 2003 to September 2011. Dr. Beck joined Haag-Streit in 2003 as President and Chief Operating Officer of Haag-Streit USA Inc. Prior to working for Haag-Streit, Dr. Beck held the position of Chief Executive Officer at Zurich-based ODC (Ophthalmic Development Company). Previously, he was also Chief Operating Officer of the medical division of Schlieren, Switzerland-based Volpi AG. Dr. Beck received a Ph.D. in Bio-Medical Optics from the Institute of Biomedical Engineering and Medical Informatics at the Swiss Federal Institute of Technology and a Masters degree in mechanical engineering at the Swiss Federal Institute of Technology.

Dr. Beck has an extensive history in the medical devices industry. As our President, Chief Executive Officer and a member of our board of directors, Dr. Beck brings to the board current operational experience, along with his extensive history in the medical devices industry, from both a domestic and an international perspective.

*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, manufactures and sells medical devices, since November 2006. Mr. Fitch also currently serves as a director of Ozone International, Inc., a privately held technology company. Mr. Fitch served as a director and Audit Committee Chairman of 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 public medical device company, from December 1994 until April 2004. 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. Mr. Fitch also served as Chief Financial Officer of several start-up technology companies from 1998 until 2002. 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.

Mr. Fitch is independent and has extensive experience in the medical device industry. Mr. Fitch's executive management and past board service have provided him with leadership and technical skills to firmly understand IRIDEX's business. His background in finance, years of service on the audit committees of Masimo and Foxhollow Technologies, and track record as an accomplished financial executive have provided Mr. Fitch with the financial acumen and skills necessary to serve as our Audit Committee financial expert and as chairman of our Audit Committee.

*Garrett A. Garrettson, Ph.D.* has served as a director of the Company since 2004 and served as Lead Independent Director and then Chairman of the Company's Board of Directors from January 2008 to September 2010. Dr. Garrettson is currently a principal of G. Garrettson Consulting, a management consulting company, and of daVinci Capital Group, a private equity fund being formed. 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 and that was purchased by Samsung. 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 had various assignments in Seagate Technology, a maker of hard disc drives and storage systems, including GM of the Enterprise Storage Division and VP of Strategic Marketing and Corporate Development. Prior to Seagate's acquisition of Imprimis Technology, Dr. Garrettson served as the Chief Technology Officer and a Vice President of Engineering at Imprimis. He has also served as a Laboratory Director at Hewlett Packard where, among other things, he was an R&D engineer for medical devices, and as an Assistant Professor of Physics at the Naval Postgraduate School where among other subjects he taught cellular and molecular biology and neurophysiology. Dr. Garrettson has served on boards of seven public companies and numerous private companies. He is currently Chairman of the board of directors of Giga-tronics, a public company, as well as a director of Purdy Electronics, a private company. From October 2004 until July 2010, Dr. Garrettson served as a director of GSI Group Inc., a public laser & laser systems manufacturing company, and from February 2003 through January 2008, Dr. Garrettson served as a director of Catalyst Semiconductor, Inc., a public semiconductor manufacturing company. Dr. Garrettson holds an M.S. in Engineering Physics as well as a Ph.D. in Nuclear Engineering from Stanford University.

Dr. Garrettson is independent and has extensive experience in the technology industry. His education and years of service in executive management roles at various technology companies, complimented by his broad technology background, have provided him a firm understanding of IRIDEX's operations and technology. Dr. Garrettson's service on the boards of directors of seven public companies, and chairman of three, and on the boards of numerous private companies, have provided him the leadership and consensus-building skills necessary to effectively serve on our Board of Directors. His service as chairman of the compensation committee chairman

for three public companies, as well as a member of numerous public company audit and governance committees has provided him with the strong background necessary to serve as chairman of our Compensation Committee and a member of our audit committee.

*James B. Hawkins* has served as a director of the Company since October 2007. Since April 2004, Mr. Hawkins has served as the President, Chief Executive Officer, and a director of Natus Medical Incorporated, 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. Mr. Hawkins holds an undergraduate degree in Business Commerce from Santa Clara University and holds an M.B.A. from San Francisco State University.

Mr. Hawkins is independent and has extensive experience in the medical device industry. Mr. Hawkins has over two decades of experience as CEO of successful medical device companies and an intimate familiarity with the operation and management of IRIDEX. His education provides him with the financial acumen necessary to serve on our Audit Committee. Mr. Hawkins also brings to the board strong consensus-building skills and a functional understanding of the role of the board of directors, which he developed through his service on the board of directors of public companies.

*William M. Moore* currently serves as Chairman of the Company's Board of Directors and 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 served as a consultant to BlueLine Partners, a private equity firm, from February 2004 until June 2008. Since February 2008, Mr. Moore has served 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 February 2006 to February 2008, Mr. Moore served on the board of directors of Criticare Systems, Inc. a public company that develops, manufactures and markets patient monitoring systems and accessories used in anesthesia, critical care, medical transport and outpatient care settings. 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. Mr. Moore holds a B.S. in Business from the University of Utah.

Mr. Moore is independent and with over twenty five years of experience in the healthcare industry, Mr. Moore firmly understands IRIDEX's business and technology. His background in both private equity and venture capital provides him additional insight into compensation issues. Mr. Moore's past service on the boards of directors of four public companies, including his service on audit, compensation and nominating and governance committees, as well as his experience as an investor, provides him the strong background in understanding the qualifications for board members necessary to serve as our Chairman and as a member of our Nominating and Governance Committee.

*Ruediger Naumann-Etienne, Ph.D.* has served as a director of the Company since December 2009. Dr. Naumann-Etienne has been the owner and Managing Director of Intertec Group, an investment company specializing in the medical device field, since 1989. He was Chairman of Cardiac Science Corporation from 2006 until the company was sold to Opto Electronics of India in 2010. From 2000 to 2005, Dr. Naumann-Etienne served as Chairman of Quinton Cardiology Systems, one of the predecessor companies of Cardiac Science. From 2000 to 2003, he also served as Chief Executive Officer of this company. From 1993 until 1999, Dr. Naumann-Etienne was Chairman of OEC Medical Systems, a manufacturer of fluoroscopic imaging systems and from 1987 to 1990 he was President and Chief Operating Officer of Dasonics, a manufacturer of diagnostic imaging equipment. Dr. Naumann-Etienne has served on the board of directors of Varian Medical Systems, Inc., a public medical device company, since 2003, and Encision Inc., a public medical device company, since October 2008.

Dr. Naumann-Etienne also served as a director of Cardiac Science Corporation, a public medical device company, from September 2005 until December 2010, and Bio-Rad Laboratories, Inc., a public life science company, from October 2003 until December 2009. Dr. Naumann-Etienne holds a Ph.D. in International Finance from the University of Michigan. He holds a Master's Degree in Industrial Management from the Georgia Institute of Technology and holds an undergraduate degree in Business Administration from the Technical University Berlin, Germany.

Dr. Naumann-Etienne is independent and has extensive experience in the medical device industry. His experience as CEO of multiple medical device companies has provided Dr. Naumann-Etienne with an intimate understanding of the operation and management of a global medical device company, and with the business and technology of IRIDEX. His service on the boards of directors of several public companies has provided Dr. Naumann-Etienne with consensus-building skills and a functional understanding of the role of the board. His education and his experience serving on the compensation committees of Varian Medical Systems and Encision have provided Dr. Naumann-Etienne the financial acumen and executive compensation experience necessary to serve on our Compensation Committee and as chairman of our Nominating and Governance Committee.

#### **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 six (6) candidates receiving the highest number of affirmative votes of shares represented and voted on this proposal at the meeting will be elected directors of the Company. Votes withheld from a nominee will be counted for purposes of determining the presence or absence of a quorum but, because directors are elected by a plurality vote, will have no impact once a quorum is established. See Information Concerning Solicitation and Voting Quorum; Abstentions; Broker Non-Votes above.

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

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## CORPORATE GOVERNANCE MATTERS

### Independence of the Board of Directors

The Board has determined that, with the exception of Dr. Beck, who is the President and Chief Executive Officer of the Company, all of its members are independent directors as defined in the listing standards of The Nasdaq Stock Market.

### Board Leadership Structure and Oversight of Risk Management

We separate the roles of CEO and Chairman of the Board in recognition of the differences between the two roles. The CEO is responsible for setting the strategic direction for the Company and the day to day leadership and performance of the Company, while the Chairman of the Board leads the Board in its fundamental role of providing advice to and independent oversight of management, provides guidance to the CEO, sets the agenda for Board meetings and presides over meetings of the full Board. While our bylaws and corporate governance guidelines do not require that our chairman and chief executive officer positions be separate, the Board believes that having separate positions and having an independent outside director serve as chairman is the appropriate leadership structure for the Company at this time and demonstrates our commitment to good corporate governance. In the event the Board believes circumstances require the CEO and Chairman roles should be merged, then the Board would designate an independent director to be Lead Director.

Our Board of Directors oversees an enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and enhance stockholder value. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the company. The involvement of the full Board of Directors in setting the Company's business strategy is a key part of its assessment of management's appetite for risk and also a determination of what constitutes an appropriate level of risk for the Company.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, various committees of the Board also have responsibility for risk management. In particular, the Audit Committee focuses on financial risk, including internal controls, and receives an annual risk assessment report from the Company's internal auditor. In addition, in setting compensation, the Compensation Committee strives to create incentives that encourage a level of risk-taking behavior consistent with the Company's business strategy.

### Board Meetings and Committees

The Board held a total of eleven meetings during fiscal year 2011 ended December 31, 2011. 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 2011, the Board had three standing committees: the Audit Committee, the Nominating and Governance Committee and the Compensation Committee.

#### *Board Committees*

*Audit Committee.* The Audit Committee of the Board consists of Messrs. Fitch and Hawkins and Dr. Garrettson. Mr. Fitch is the chairman of the Audit Committee. The Audit Committee held five meetings during the last fiscal year. 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, and reviewing and evaluating the accounting principles being applied to the Company's financial reports. The Audit Committee has adopted a written charter approved by the Board, which was amended in April 2009, a copy of which is available on our website at [www.iridex.com](http://www.iridex.com).

*Compensation Committee.* The Compensation Committee of the Board consists of Dr. Garrettson, Mr. Fitch and Dr. Naumann-Etienne. Dr. Garrettson is the chairman of the Compensation Committee. The Compensation Committee held seven meetings during the last fiscal year. 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 amended in April 2009, a copy of which is available on our website at [www.iridex.com](http://www.iridex.com).

*Nominating and Governance Committee.* The Nominating and Governance Committee of the Board consists of Messrs. Moore and Hawkins, and Dr. Naumann-Etienne. Dr. Naumann-Etienne is the chairman of the Nominating and Governance Committee. The Nominating and Governance Committee held one meeting during the last fiscal year. 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 amended in April 2009, a copy of which is available on our website at [www.iridex.com](http://www.iridex.com).

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

The Company has adopted a formal policy regarding attendance by members of the Board at the Company's annual meeting of stockholders. The Company's policy is that it encourages, but does not require, directors to attend. Messrs. Boutacoff, Fitch, Hawkins and Moore and Dr. Garrettson attended the Company's 2011 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 2012 Annual Meeting of Stockholders, stockholder proposals must be received by the Company no later than December 28, 2012, 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 Company seeks independent directors who represent a mix of backgrounds and experiences that will enhance the quality of the board's deliberations and decisions. Candidates shall have substantial experience with one or more publicly traded national or multinational companies or shall have achieved a high level of distinction in their chosen fields. 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.

Consistent with past practice, the Nominating and Governance Committee and the Board will continue to monitor and assess the size and composition of the Board and will consider the appointment of additional directors from time to time as appropriate to serve the best interests of the Company and its stockholders.

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

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

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

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

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



**PROPOSAL TWO****RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC****ACCOUNTANTS****Introduction**

The Audit Committee has appointed Burr Pilger Mayer, Inc. ( **BPM** ), independent registered public accountants, to audit the financial statements of the Company for fiscal year 2012 ending December 29, 2012, and recommends that stockholders vote for ratification of such appointment. BPM also served as the Company's independent registered public accountants for fiscal year 2011 ended December 31, 2011. 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.

**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 fiscal year 2011 ended December 31, 2011 and fiscal year 2010 ended January 1, 2011.

<b>(in thousands)</b>	<b>Fiscal 2011</b>	<b>Fiscal 2010</b>
Audit Fees (1)	\$ 361	\$ 300
Audit-Related Fees (2)		
<b>Total</b>	<b>\$ 361</b>	<b>\$ 300</b>

- (1) Audit Fees consisted of fees for professional services rendered for the audit of the Company's annual financial statements included in the Company's Annual Reports on Form 10-K and for the review of the financial statements included in the Company's Quarterly Reports on Form 10-Q, as well as reviews of regulatory and statutory filings.
- (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. BPM did not perform any such services for the Company in fiscal years 2011 or 2010.

**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, Inc. See Information Concerning Solicitation and Voting Quorum; Abstentions; Broker Non-Votes.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE**

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**FOR RATIFICATION OF THE APPOINTMENT OF BURR PILGER MAYER, INC.**

**PROPOSAL THREE**

**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 2008 Equity Incentive Plan (the "2008 EIP") to add 400,000 shares to the total number of shares of our Common Stock reserved for issuance under the 2008 EIP. On April 26, 2012, our Board approved the amendment to the 2008 EIP, subject to approval from the stockholders at the 2012 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 2008 EIP 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 2008 EIP 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 2008 EIP, we currently anticipate that we will not ask stockholders for additional shares for issuance under the Plan until at least the 2015 Annual Meeting, depending on business conditions and needs.

Approval of the 2008 EIP amendment requires the affirmative vote of the holders of a majority of the Votes Cast. If stockholders do not approve the amendment to the 2008 EIP, no shares will be added to the total number of shares reserved for issuance under the 2008 EIP. Our named executive officers and directors have an interest in this proposal.

**Summary of the 2008 Equity Incentive Plan**

The following is a summary of the principal features of the 2008 EIP, as amended by the Board on April 26, 2012, subject to stockholder approval. A copy of the 2008 EIP, as amended and restated, is set forth in Appendix A. The 2008 EIP is also available in its entirety in the proxy materials located at the "SEC Filings" link on the "Investor Relations" page of our website at [www.iridex.com](http://www.iridex.com).

The 2008 EIP 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 2008 EIP include employees, directors and consultants who provide services to the Company and its parent or subsidiaries. In general when issuing Awards, we issue only non-statutory stock options to employees, including executive officers. As of March 15, 2012, approximately 115 of our employees, directors and consultants would be eligible to participate in the 2008 EIP.

*Number of Shares of Common Stock Available Under the 2008 EIP.* The maximum aggregate number of shares that may be awarded and sold under the 2008 EIP 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 March 15, 2012, there were 657,162 shares subject to stock options outstanding under the 1998 Stock Plan. The shares may be authorized, but unissued, or reacquired Common Stock. As of March 15, 2012, 100,315 shares covering Awards have been granted under the 2008 EIP and 323,927 shares remained available for issuance under the 2008 EIP.

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 2008 EIP share reserve pursuant to the preceding sentence is returned to the 2008 EIP, the 2008 EIP reserve will be credited with two shares that will thereafter be available for issuance under the 2008 EIP.

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 2008 EIP. 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 2008 EIP. Shares that have actually been issued under the 2008 EIP under any Award will not be returned to the 2008 EIP and will not become available for future distribution under the 2008 EIP; 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 2008 EIP 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 2008 EIP. 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 2008 EIP.

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 2008 EIP, (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 2008 EIP prohibits the implementation of a stock option exchange program without stockholder approval.

*Administration of the 2008 EIP.* 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 2008 EIP. 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 2008 EIP).

Subject to the terms of the 2008 EIP, 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 2008 EIP), and to interpret the provisions of the 2008 EIP and outstanding Awards.

*Options.* The Administrator is able to grant nonstatutory stock options and incentive stock options under the 2008 EIP. The Administrator determines the number of shares subject to each option, although the 2008 EIP 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 2008 EIP, 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 2008 EIP. 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 2008 EIP, will have complete discretion to determine the terms and conditions of stock appreciation rights granted under the 2008 EIP, 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 2008 EIP 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 2008 EIP 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 2008 EIP.* The Administrator will have the authority to amend, alter, suspend or terminate the 2008 EIP, except that stockholder approval will be required for any amendment to the 2008 EIP to the extent required by any applicable laws. No amendment, alteration, suspension or termination of the 2008 EIP 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 2008 EIP 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 or consultant may receive under the 2008 EIP is in the discretion of the Administrator and therefore cannot be determined in advance. As discussed below in Executive Compensation Director Compensation Equity Compensation, each non-employee director automatically receives an RSU grant equal to \$20,000 pursuant to the Company's non-employee director compensation program. The following table sets forth (a) the aggregate number of shares of Common Stock subject to options granted under the 2008 EIP during the 2011 fiscal year, (b) the average per share exercise price of such options, (c) the aggregate number of shares of Common Stock subject to restricted stock unit awards granted under the 2008 EIP during the 2011 fiscal year and (d) the aggregate grant date fair value of all awards granted to such persons under the 2008 EIP during the 2011 fiscal year.

Name of Individual or Group	Number of Securities Underlying Options Granted	Weighted Average Per Share Exercise Price(s)	Number of Securities Underlying Restricted Stock Awards Granted	Dollar Value of Award(s) (\$) (1)
Dominik Beck, Ph.D.	135,000	\$ 3.40	75,000	\$ 572,642
Eduardo Arias	0	0	0	0
Theodore A. Boutacoff	0	0	0	0
Sanford Fitch	0	0	5,063	19,999
Garrett A. Garrettson, Ph.D.	0	0	5,063	19,999
James B. Hawkins	0	0	5,063	19,999
James Mackaness	50,000	3.60	0	124,565
William M. Moore	5,000	3.95	5,063	33,627
Ruediger Naumann-Etienne, Ph.D.	0	0	5,063	19,999
All executive officers, as a group	185,000	3.45	75,000	697,207
All directors who are not executive officers, as a group	5,000	3.95	25,315	113,623
All employees who are not executive officers, as a group				

(1) Reflects the aggregate grant date fair value of awards computed in accordance with FASB ASC Topic 718.

**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.

#### **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 2008 EIP to increase the share reserve by 400,000 shares.

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

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**EXECUTIVE OFFICERS**

The following table sets forth certain information with respect to the Company's executive officers as of April 27, 2012.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Dominik Beck, Ph.D.	47	President and Chief Executive Officer
Theodore A. Boutacoff	64	Chief Technology Officer
Eduardo Arias	68	Senior Vice President, International Sales and Business Development
James H. Mackaness	48	Chief Financial Officer
See Dr. Beck's biography under "Proposal One - Election of Directors."		

*Theodore A. Boutacoff* currently serves as the Chief Technology 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 October 2011. 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 was a member of the Company's Board of Directors from February 1989 until October 2011. Mr. Boutacoff holds 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 H. 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.

## 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 fiscal year 2011 ended December 31, 2011, the Compensation 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. 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 2012, which is described in further detail below.

#### *2012 Executive Management Bonus Plan*

The Company's 2012 executive management bonus plan (the "2012 Bonus Plan") provides for the payment of cash bonuses to all eligible vice presidents, corporate officers and other specified senior employees of the Company, including the Company's executive officers, upon the Company's achievement of targeted operating results and individual performance objectives. The payouts under the 2012 Bonus Plan are calculated for each eligible participant based upon individual objectives determined and reviewed by the Compensation Committee.

#### *2011 Senior Staff Bonus Plan*

The Company's 2011 senior staff bonus plan (the "2011 Bonus Plan") provides for the payment of cash bonuses to all eligible senior staff-level employees of the Company, including the Company's executive officers, upon the Company's achievement of targeted operating income and revenue goals and the achievement of individual objectives for each participant determined by the Compensation Committee. Payouts under the 2011 Bonus Plan payouts are calculated for each eligible participant based upon individual objectives determined by the Compensation Committee.

#### *Stock Grants/Awards*

Stock options or other stock grants are granted to executive officers and other employees under the Company's option plan. 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 and stock grants generally vest over a four-year period, based on continued employment. Factors considered in granting stock options and stock grants to executive officers of the Company are the duties and responsibilities of each individual, such as individual's contributions to the success of the Company and other relevant factors. The Company views stock options and stock grants 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. In general, we issue only non-statutory stock options to our executive officers.

#### *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.

*Other Benefits*

Executive officers are eligible to participate in all of our employee benefit plans, such as medical, dental, vision, group life, disability, and accidental death and dismemberment insurance, and our 401(k) plan, in each case on the same basis as other employees, subject to applicable law. We also provide vacation and other paid holidays to all employees, including our executive officers, which we intend to be comparable to those provided at peer companies.

**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 set at \$300,000 upon Dr. Beck's commencement in October 2011, approximately the 50th percentile of peer companies.

**2011 Summary Compensation Table**

The following table shows, with respect to each person who served as Chief Executive Officer of the Company during the 2011 fiscal year 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 the 2011 fiscal year.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(1)	All Other Compensation (\$)(2)	Total (\$)
Dominik Beck, Ph.D. (3) President and Chief Executive Officer	2011	\$ 69,462	\$ 2,334	\$ 255,000	\$ 317,641	\$ 58,773	\$ 703,210
Theodore A. Boutacoff (4) Chief Technology Officer	2011	265,192	9,534			\$ 3,564	278,290
	2010	267,539	15,815		87,573	\$ 3,510	374,437
	2009	249,231	13,039			\$ 3,537	265,807
James H. Mackaness Chief Financial Officer	2011	258,231	29,090		124,565	\$ 810	412,696
	2010	246,875	21,180		72,978	\$ 798	341,831
	2009	246,462	19,559			\$ 804	266,825
Eduardo Arias Senior Vice President, International Sales and Business Development	2011	274,859	55,151			\$ 5,539	335,549
	2010	252,135	10,312		43,787	\$ 5,229	311,463
	2009	245,841	6,870			\$ 5,223	257,934

- (1) Reflects the aggregate grant date fair value of awards computed in accordance with FASB ASC Topic 718.
- (2) Unless otherwise indicated, All Other Compensation consists solely of the value of life insurance premiums paid by the Company.
- (3) Dr. Beck was appointed as the Company's President and Chief Executive Officer in October 2011. Dr. Beck's other compensation consists of \$58,617 of reimbursement of relocation related expenses and \$156 of life insurance premiums.
- (4) Mr. Boutacoff served as the Company's President and Chief Executive Officer from October 2007 until October 2011, and has served as the Company's Chief Technology Officer since October 2011.

**Grants of Plan-Based Awards in Fiscal 2011**

The following table shows all grants of plan-based awards made to our named executive officers under our equity compensation plans during fiscal 2011.

Name	Grant Date	Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	All Other Stock Awards: Number of Shares or Units (#)	Grant Date Fair Value of Stock and Option Awards (\$)(1)
Dominik Beck, Ph.D.	10/10/2011	135,000	\$ 3.40	75,000	\$ 572,642
Theodore A. Boutacoff		0	0	0	0
Eduardo Arias		0	0	0	0
James Mackaness	12/7/2011	50,000	3.60	0	124,565

**Outstanding Equity Awards at 2011 Fiscal Year-End**

The following table shows, with respect to each of our named executive officers, the number of options exercisable and unexercisable and the number of shares of restricted stock unit awards that have not vested as of the end of the 2011 fiscal year.

Name	Option Awards		Option Exercise Price (\$)(1)	Option Expiration Date(2)	Stock Awards	
	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or other Rights that have not Vested (\$)	
Dominik Beck, Ph.D. (3)	Exercisable	Unexercisable	\$ 3.40	10/10/2018	75,000	\$ 255,000
Theodore A. Boutacoff (4)	41,448		5.39	11/11/2013		
	18,552		5.39	11/11/2013		
	43,314		5.56	4/28/2015		
	31,686		5.56	4/28/2015		
	18,750	6,250	0.90	12/11/2015		
	8,334	11,666	4.31	4/29/2017		
James H. Mackaness (4)	10,000		4.31	4/29/2017		
	78,333	1,667	2.49	1/2/2015		
	18,750	6,250	0.90	12/11/2015		
	8,334	11,666	4.31	4/29/2017		
Eduardo Arias (4)	5,000		4.31	4/29/2017		
		50,000	3.60	12/7/2018		
	10,000		7.84	9/17/2013		
	15,000		4.74	9/23/2013		
	5,750	250	3.53	2/13/2015		
		5.08	3/31/2015			
	3,750	0.90	12/11/2015			

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6,250                      8,750                      4.31                      4/29/2017

- (1) Options were granted at an exercise price equal to the fair market value of the Company's Common Stock, as determined by reference to the closing price reported on The Nasdaq Global Market on the date of grant.
- (2) Options held by our named executive officers other than Mr. Boutacoff may terminate before their expiration dates if the optionee's status as an employee is terminated or upon the optionee's death or disability. In connection with the Transition Agreement with Mr. Boutacoff (as defined and discussed below), options held by Mr. Boutacoff have been amended to extend the post-termination exercise periods of such options to their respective expiration dates.

- (3) The option granted to Dr. Beck vests at the rate of 12/48ths of the shares subject to the option 12 months following the commencement of Dr. Beck's services with the Company, and 1/48<sup>th</sup> of the shares vest each month thereafter. The RSU award granted to Dr. Beck vests as to 24,999 shares on the one year anniversary of the date of grant and as to 16,667 shares on each subsequent anniversary.
- (4) The options granted to Messrs. Boutacoff and Arias vest at the rate of 1/48th of the shares subject to the option each month following the date of grant. The option granted with an exercise price of \$2.49 to Mr. Mackaness vests at the rate of 12/48ths of the shares subject to the option 12 months following the date of grant, and 1/48<sup>th</sup> of the shares vest each month thereafter. The additional options granted to Mr. Mackaness vest at the rate of 1/48th of the shares subject to the option each month following the date of grant.

#### Option Exercises and Stock Vested at Fiscal 2011 Year End

The following table presents certain information concerning option exercises by each of our named executive officers during the 2011 fiscal year. No restricted stock unit awards held by our named executive officers vested during the 2011 fiscal year.

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) (1)
Dominik Beck, Ph.D.		\$
Theodore A. Boutacoff		
Eduardo Arias	10,000	1,497
James Mackaness		

- (1) Reflects the number of shares acquired on exercise multiplied by the excess of the closing market price of our common stock as reported on the Nasdaq Global Market on the exercise date over the exercise price.

#### Termination and Change of Control Arrangements

##### Employment Agreement with Dominik Beck, Ph.D.

On August 16, 2011, the Company entered into an Employment Agreement (the "Employment Agreement") with Dominik Beck, Ph.D., the Company's President and Chief Executive Officer. The Employment Agreement provides Dr. Beck with certain severance benefits in the event that his employment with the Company is terminated under certain circumstances described therein.

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

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

(i) *Cash Severance Payment.* Dr. Beck would be paid a lump sum payment equal to twelve months of his base salary.

(ii) *Vesting Acceleration.* All of the shares underlying the then-outstanding and unvested equity awards held by Dr. Beck, if any, would immediately vest and become exercisable and any Company right of repurchase or reacquisition with respect to such shares will lapse, as applicable.

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



*Termination outside the Change of Control Context*

If, prior to a Change of Control, Dr. Beck's employment with the Company terminates: (i) voluntarily by Dr. Beck for Good Reason or (ii) by the Company other than for Cause, death or Disability (as defined in the Employment Agreement), and, in each case, Dr. Beck signs and does not revoke a standard release of claims with the Company, then Dr. Beck will receive the following severance from the Company:

(i) *Cash Severance Payment.* Dr. Beck would be paid a lump sum payment equal to twelve months of his base salary.

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

Executive Transition Agreement with Theodore Boutacoff

On October 10, 2011, the Company entered into an Executive Transition Agreement (the "Transition Agreement") with Theodore Boutacoff. The Transition Agreement provides Mr. Boutacoff with certain severance benefits in the event that his employment with the Company is terminated under certain circumstances described therein. If in the event that: (a) prior to February 10, 2013, (i) the Company terminates Mr. Boutacoff's employment without Mr. Boutacoff's consent and without Cause (as defined in the Transition Agreement), or (ii) Mr. Boutacoff terminates his employment with the Company for Good Reason (as defined in the Transition Agreement), and, in each case, Mr. Boutacoff signs and does not revoke a standard release of claims with the Company, or (b) Mr. Boutacoff's employment with the Company due to Mr. Boutacoff's death or Mr. Boutacoff becoming Disabled (as defined in the Transition Agreement), then Mr. Boutacoff or Mr. Boutacoff's estate (as the case may be) will receive the following severance from the Company:

(i) *Cash Severance Payment.* Mr. Boutacoff would be paid a lump sum payment equal to the base salary Mr. Boutacoff would have received had Mr. Boutacoff continued his employment with the Company through February 10, 2013.

(ii) *Continued Employee Benefits.* Mr. Boutacoff would receive reimbursement from the Company through February 10, 2013 for the costs and expenses incurred by himself and/or his eligible dependents for coverage under the Company's benefit plans, provided that such coverage is timely elected under COBRA.

(iii) *Vesting Acceleration.* All of the shares underlying the then-outstanding and unvested equity awards held by Mr. Boutacoff, if any, would immediately vest and become exercisable.

The Transition Agreement also provides that all outstanding option awards held by Mr. Boutacoff will be amended to extend the post-termination exercise periods of such awards to their respective expiration dates and, if Mr. Boutacoff remains employed with the Company through February 10, 2013, all of the shares underlying the then-outstanding and unvested equity awards held by Mr. Boutacoff, if any, would immediately vest.

Change of Control Agreement with James H. Mackaness

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

*Termination within the Change of Control Context*

If in the event that: (a) within twelve months following a Change of Control (as defined in the Change of Control Agreement), or (b) at any time prior to a Change of Control if such termination is effected at the request of an Acquiror (as defined in the Change of Control Agreement), (x) Mr. Mackaness terminates his employment with the Company for Good Reason (as defined in the Change of Control Agreement), or (y) the Company

terminates Mr. Mackaness employment without Cause (as defined in the Change of Control Agreement), and, in each case, Mr. Mackaness signs and does not revoke a standard release of claims with the Company, then Mr. Mackaness will receive the following severance from the Company:

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

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

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

*Termination outside the Change of Control Context*

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

**Director Compensation**

The following table provides information concerning the compensation paid by us to each of our non-employee directors for fiscal 2011. Dr. Beck and Mr. Boutacoff, who are our employees, did not receive additional compensation for their services as members of our board of directors.

Name	Fees Earned or			Total (\$)
	Paid in Cash (\$)	Stock Awards (\$)(1)(2)	Option Awards (\$)(1)(2)	
Sanford Fitch	\$ 40,000	\$ 19,999	\$ 0	\$ 59,999
Garrett A. Garrettson, Ph.D.	\$ 36,000	\$ 19,999	\$ 0	\$ 55,999
James B. Hawkins	\$ 32,000	\$ 19,999	\$ 0	\$ 51,999
William M. Moore (3)	\$ 40,000	\$ 19,999	\$ 13,628	\$ 73,627
Ruediger Naumann-Etienne, Ph.D.	\$ 34,000	\$ 19,999	\$ 0	\$ 53,999

- (1) Reflects the aggregate grant date fair value of awards computed in accordance with FASB ASC Topic 718.  
 (2) As of December 31, 2011, the aggregate number of underlying options outstanding for each of our non-employee directors was:

Name	Aggregate Number of Shares Underlying Outstanding Options
Sanford Fitch	40,000
Garrett A. Garrettson, Ph.D.	55,000
James B. Hawkins	25,000
William M. Moore	30,000
Ruediger Naumann-Etienne, Ph.D.	15,000

- (3) Chairman of the Board.

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

*Cash Compensation*

Pursuant to our non-employee director cash compensation policy, non-employee members of our Board, other than our Chairman, received an annual retainer (in each case paid in quarterly installments) of \$20,000, and our Chairman of the Board received an annual retainer of \$35,000. Each member (including the chairman) of the Audit Committee received an annual retainer of \$7,000, and each member (including the chairman) of the Nominating and Governance Committee and the Compensation Committee received an annual retainer of \$5,000. The Chairman of the Audit Committee received an additional annual retainer of \$8,000, and the Chairman of each of the Nominating and Governance Committee and the Compensation Committee received an additional annual retainer of \$4,000. We reimburse members of the Board and Board committees for reasonable out-of-pocket expenses incurred by them in attending such meetings.

*Equity Compensation*

Pursuant to our non-employee director equity compensation policy, (i) each non-employee director automatically received an RSU grant equal to \$20,000 worth of our common stock (determined at the fair market value of the shares at the time such RSU award was granted) under our 2008 EIP and (ii) our non-employee Chairman, Mr. Moore, automatically received an option grant to purchase 5,000 shares of our common stock with an exercise price equal to the fair market value of the shares at the time such option award was granted under our 2008 EIP. Each RSU grant vests in full on the one-year anniversary of the date of grant and the option granted to our Chairman is subject to vesting over 12 months, with 1/12th of the shares subject to the option vesting each month following the grant date, and has a term of 7 years.

## AUDIT COMMITTEE REPORT

### General

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

### Review with Management

The Audit Committee reviewed and discussed our audited financial statements for fiscal year 2011 ended December 31, 2011, together with the notes thereto, with management, which has primary responsibility for the financial statements. Burr Pilger Mayer, Inc., our independent registered public accounting firm, is responsible for expressing an opinion on the conformity of the Company's audited financial statements with generally accepted accounting principles.

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

The Audit Committee discussed with Burr Pilger Mayer, Inc. the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communications with Audit Committees), as amended, as adopted by the Public Company Accounting Oversight Board (PCAOB) in Rule 3200T, which includes, among other items, matters related to the conduct of the audit of our financial statements.

The Audit Committee also received from the independent auditor the written disclosures regarding the auditor's independence required by PCAOB Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence, and the letter from Burr Pilger Mayer, Inc. required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with Burr Pilger Mayer, Inc.'s independence with them. The Audit Committee also concluded that Burr Pilger Mayer, Inc.'s provision of non-audit services to the Company is compatible with Burr Pilger Mayer, Inc.'s independence.

### Conclusion

Based on the review and discussions referred to above, the Audit Committee recommended to the Board that our audited financial statements be included in our Annual Report on Form 10-K for fiscal year 2011 ended December 31, 2011 for filing with the SEC.

AUDIT COMMITTEE OF THE BOARD OF

DIRECTORS

Sanford Fitch (Chairman)

Garrett A. Garrettson, Ph.D.

James B. Hawkins

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

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

In October 2011, the Company entered into an Executive Transition Agreement with Theodore Boutacoff, as described in Executive Compensation Termination and Change of Control Arrangements above, pursuant to which Mr. Boutacoff resigned as the Company s President and Chief Executive Officer and as a member of the Company s Board of Directors, and was appointed as the Company s Chief Technology Officer.

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

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

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities to file reports of ownership and changes in ownership with the SEC. Such executive officers, directors and greater than 10% stockholders are also required by SEC rules to furnish the Company with copies of all forms that they file pursuant to Section 16(a). Specific due dates have been established by the SEC, and the Company is required to disclose in this Proxy Statement any failure to file by those dates. Based solely on its review of the copies of such forms received by it, and written representations from certain reporting persons that no filings were required for such persons, the Company is not aware of any late Section 16(a) filings during the Company's 2011 fiscal year.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to the Company regarding the beneficial ownership of the Company's Common Stock as of March 15, 2012 by (i) each person (or group of affiliated persons) who is the beneficial owner of more than 5% of the Company's Common Stock, (ii) each director and nominee for director, (iii) each of the Company's executive officers named in the Summary Compensation Table appearing herein, and (iv) all of the Company's directors and executive officers as a group.

	Beneficial Ownership - as of March 15, 2012	
	Number of Shares (2)	Percent of Total (2)
<b>5% Stockholders, Directors and Officers (1)</b>		
BlueLine Partners, L.L.C. (3)	2,477,173	27.7%
Paragon Associates II Joint Venture (4)	750,000	8.4%
Kennedy Capital Management, Inc. (5)	764,274	8.5%
Heartland Advisors, Inc. (6)	500,000	5.6%
<b>Directors</b>		
Sanford Fitch (7)	59,063	*
Garrett A. Garrettson, Ph.D. (8)	72,063	*
James B. Hawkins (9)	45,013	*
William M. Moore (10)	119,007	1.3%
Ruediger Naumann-Etienne, Ph.D. (11)	150,008	1.7%
<b>Named Executive Officers</b>		
Dominik Beck, Ph.D. (12)	0	*%
Theodore A. Boutacoff (13)	337,276	3.7%
James H. Mackaness (14)	127,521	1.4%
Eduardo Arias (15)	209,488	2.3%
All directors and executive officers as a group (9 persons) (16)	1,119,439	11.8%

\* Represents less than 1% of the total.

- (1) Unless otherwise indicated in the table, the address for each listed person is c/o IRIDEX Corporation, 1212 Terra Bella Avenue, Mountain View, CA 94043.
- (2) The number and percentage of shares beneficially owned is determined under rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days of March 15, 2012, through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes, each person has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares shown as beneficially owned. Percentage beneficially owned is based on 8,952,110 shares of common stock outstanding on March 15, 2012.
- (3) Includes shares owned by: BlueLine Capital Partners, L.P., BlueLine Capital Partners II, LLC, BlueLine Capital Partners III, LP, BlueLine Catalyst Fund VIII, L.P. and BlueLine Partners, L.L.C., together ( BlueLine Partners ). BlueLine Partners is located at 402 Railroad Ave., Suite 201, Danville, CA 94526. These securities are owned by BlueLine Catalyst Fund IX, L.P., who is a member of a group with BlueLine Capital Partners I, L.P., BlueLine Capital Partners II, L.P., BlueLine Capital Partners III, L.P., BlueLine Catalyst Fund VIII, L.P., BlueLine Partners, L.L.C. and BlueLine Partners II, L.L.C. BlueLine Partners, L.L.C. is the sole general partner of BlueLine Catalyst Fund IX, L.P.
- (4) Reflects 750,000 shares of Common Stock held of record by Paragon Associates and Paragon Associates II Joint Venture ( Paragon JV ); Bradbury Dyer III, as the authorized agent of Paragon JV, has the power to vote and dispose of the 750,000 shares of Common Stock held by Paragon JV. This information was obtained from a filing made with the SEC pursuant to Rule 13d-1 of the Exchange Act on February 10, 2009. Paragon Associates and Paragon JV are located at 500 Crescent Court, Suite 260, Dallas, Texas 75201.
- (5) Kennedy Capital Management, Inc. is located at 10829 Olive Blvd., St. Louis, MO 63141. This information was obtained from a filing made with the SEC pursuant to Rule 13G of the Exchange Act on February 14, 2012.



- (6) Reflects 500,000 shares of Common Stock which may be deemed beneficially owned within the meaning of Rule 13d-3 of the Exchange Act by (1) Heartland Advisors, Inc. by virtue of its investment discretion and voting authority granted by certain clients, which may be revoked at any time; and (2) William J. Nasgovitz, by virtue of his control of Heartland Advisors, Inc. The address for Heartland Advisors, Inc. and Mr. Nasgovitz is 789 North Water Street, Milwaukee, WI 53202. This information was obtained from a filing made with the SEC pursuant to Rule 13d-1 of the Exchange Act on February 10, 2012.
- (7) Includes 40,000 shares subject to options that are exercisable within 60 days of March 15, 2012.
- (8) Includes 55,000 shares subject to options that are exercisable within 60 days of March 15, 2012.
- (9) Includes 25,000 shares subject to options that are exercisable within 60 days of March 15, 2012.
- (10) Includes 30,000 shares subject to options that are exercisable within 60 days of March 15, 2012.
- (11) Includes 12,500 shares subject to options that are exercisable within 60 days of March 15, 2012. Includes 64,319 shares owned by Intertec Healthcare Partners LP ( Intertec ), over which Dr. Naumann-Etienne may be deemed to share voting and dispositive power as a result of his position as a general partner. Includes 6,126 shares owned by Lamed Management & Technologie GmbH ( Lamed ), over which Dr. Naumann-Etienne may be deemed to share voting and dispositive power as a result of his position as a managing director. Includes 22,000 shares owned by the Naumann-Etienne Foundation, over which Dr. Naumann-Etienne may be deemed to share voting and dispositive power as a result of his position as president. Dr. Naumann-Etienne disclaims beneficial ownership of the shares held by Intertec, except to the extent of his proportionate partnership interest therein, and beneficial ownership of the shares held by Lamed and the Naumann-Etienne Foundation, except to the extent of his pecuniary interest therein.
- (12) Dr. Beck is also a member of the Board of Directors.
- (13) Includes 178,229 shares subject to options that are exercisable within 60 days of March 15, 2012.
- (14) Includes 125,521 shares subject to options that are exercisable within 60 days of March 15, 2012.
- (15) Includes 62,563 shares subject to options that are exercisable within 60 days of March 15, 2012.
- (16) Includes 528,813 shares subject to options that are exercisable within 60 days of March 15, 2012.

**OTHER MATTERS**

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

THE BOARD OF DIRECTORS

Dated: April 27, 2012



