
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported)

July 5, 2005

IRIDEX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation)

0-27598

(Commission File Number)

77-0210467

(IRS Employer Identification No.)

**1212 Terra Bella Avenue
Mountain View, California 94043**

(Address of principal executive offices, including zip code)

(650) 940-4700

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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TABLE OF CONTENTS

[Item 1.01. Entry Into a Material Definitive Agreement](#)

[Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers](#)

[Item 9.01. Financial Statements and Exhibits](#)

[SIGNATURES](#)

[EXHIBIT INDEX](#)

[EXHIBIT 10.1](#)

[EXHIBIT 10.2](#)

[Table of Contents](#)

Item 1.01. Entry Into a Material Definitive Agreement.

Employment Agreement with Barry G. Caldwell

On July 5, 2005, IRIDEX Corporation (the “Company”) entered into an employment agreement (the “Employment Agreement”) with Barry G. Caldwell, a copy of which is attached to this report as Exhibit 10.1 and is incorporated herein by reference, pursuant to which Mr. Caldwell will serve as the Company’s Chief Executive Officer. Pursuant to the terms of the Employment Agreement, Mr. Caldwell is employed by the Company on an “at-will” basis and is entitled to an annualized salary of \$300,000 per year and is eligible to participate in the Company’s existing profit and executive bonus programs. Mr. Caldwell will also receive certain relocation benefits in connection with his establishment of a full-time residence in the San Francisco Bay Area. If Mr. Caldwell voluntarily terminates his employment with the Company within twelve (12) months of the commencement of such employment, Mr. Caldwell is required to repay these relocation benefits on a pro-rata basis.

Severance and Change of Control Agreement entered into with Barry G. Caldwell

On July 5, 2005, the Company entered into a Severance and Change of Control Agreement (the “Change of Control Agreement”) with Barry G. Caldwell, the Company’s Chief Executive Officer, a copy of which is attached to this report as Exhibit 10.2 and is incorporated herein by reference.

The Change of Control Agreement provides Mr. Caldwell 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 Mr. Caldwell’s employment with the Company is: (x) terminated either (1) as a result of an actual termination by the Company or its successor other than for Cause (as defined in the Change of Control Agreement) or (2) Mr. Caldwell terminates his employment for Good Reason (as defined in the Change of Control Agreement), and (y) (1) or (2) occur at any time either: (i) between the public disclosure of any event that would result in a Change of Control (as defined in the Change of Control Agreement) and either the occurrence of such event or the abandonment or cessation of such event; or (ii) between the occurrence of a Change of Control and the nine (9) month anniversary of such Change of Control, then, subject to Mr. Caldwell executing a separation agreement and release of claims in a form satisfactory to the Company (a “Separation Agreement”), Mr. Caldwell would be entitled to receive the following benefits from the Company:

(a) Vesting Acceleration. Fifty percent (50%) of the unvested shares subject to all of Mr. Caldwell’s options to purchase shares of Company common stock outstanding on the date of such termination, whether granted on, before or after the date of the Change of Control Agreement, and fifty percent (50%) of any of Mr. Caldwell’s shares of Company common stock subject to a Company repurchase right upon Mr. Caldwell’s termination of employment for any reason whether acquired by Mr. Caldwell on, before or after the date of the Change of Control Agreement, would immediately vest upon such termination.

(b) Cash Severance Payment. Mr. Caldwell would be paid continuing payments of severance pay in an aggregate amount equal to the amount of base salary Mr. Caldwell would have been paid at his base salary rate, as then in effect, had he continued his employment with the Company through (a) the twelve (12) month anniversary of such termination, if such termination occurs prior to the one year anniversary of the date the Change of Control Agreement was executed or (b) the eighteen (18) month anniversary of such termination, if such termination occurs subsequent to the one year anniversary of the date the Change of Control Agreement was executed, as the case may be (with the relevant time period provided for in either (a) or (b), as the case may be, being referred to hereinafter as the “Change of Control Severance Payment Period”), and such aggregate amount will be paid ratably on a periodic basis through March 15 of the calendar year following the year of employment termination in accordance with the Company’s normal payroll policies; provided, however, that if during the

Table of Contents

Change of Control Severance Payment Period Mr. Caldwell breaches the provisions of the Separation Agreement, all severance payments will immediately cease.

(c) Continued Employee Benefits. Mr. Caldwell would receive Company-paid coverage during the Change of Control Severance Payment Period for Mr. Caldwell and his eligible dependents under the Company's employee benefit plans; provided, however, that if during the Change of Control Severance Payment Period Mr. Caldwell breaches the provisions of the Separation Agreement, all Company-paid coverage would immediately cease.

Termination outside the Change of Control Context.

If Mr. Caldwell's employment with the Company is: (x) terminated either (1) as a result of an actual termination by the Company or its successor other than for Cause or (2) Mr. Caldwell terminates his employment for Good Reason, and (y) (1) or (2) occur at any time that does not occur during either: (i) between the public disclosure of any event that would result in a Change of Control and either the occurrence of such event or the abandonment or cessation of such event; or (ii) between the occurrence of a Change of Control and the nine (9) month anniversary of such Change of Control, then, subject to Mr. Caldwell's executing a Separation Agreement, Mr. Caldwell would be entitled to receive the following benefits:

(a) Cash Severance Payment. Mr. Caldwell would be paid continuing payments of severance pay in an aggregate amount equal to the amount of base salary Mr. Caldwell would have been paid at Mr. Caldwell's base salary rate, as then in effect, had Mr. Caldwell continued his employment with the Company through (a) the six (6) month anniversary of such termination, if such termination occurs prior to the one year anniversary of the date the Change of Control Agreement was executed or (b) the twelve (12) month anniversary of such termination, if such termination occurs subsequent to the one year anniversary of the date the Change of Control Agreement was executed, as the case may be (with the relevant time period provided for in either (a) or (b), as the case may be, being referred to hereinafter as the "Non-Change of Control Severance Payment Period"), and such aggregate amount will be paid ratably on a periodic basis through March 15 of the calendar year following the year of employment termination in accordance with the Company's normal payroll policies; provided, however, that if during the Non-Change of Control Severance Payment Period Mr. Caldwell breaches the provisions of the Separation Agreement, all severance payments will immediately cease.

(b) Continued Employee Benefits. Mr. Caldwell would receive Company-paid coverage during the Non-Change of Control Severance Payment Period for Mr. Caldwell and Mr. Caldwell's eligible dependents under the Company's employee benefit plans; provided, however, that if during the Non-Change of Control Severance Payment Period Mr. Caldwell breaches the provisions of the Separation Agreement, all Company-paid coverage would immediately cease.

In the event that Mr. Caldwell is terminated for Cause, or voluntarily terminates his employment with the Company other than for Good Reason, then Mr. Caldwell will (i) receive his earned but unpaid base salary through the date of termination of employment, (ii) receive all accrued vacation, expense reimbursements and any other benefits due to Employee through the date of termination of employment in accordance with established Company plans, policies and arrangements, and (iii) not be entitled to any other compensation or benefits (including, without limitation, accelerated vesting of options or restricted stock) from the Company except to the extent provided under the applicable stock option agreement(s) or as may be required by law.

The Change of Control Agreement is renewable upon the three year anniversary of its effective date; provided, however, that in the event that the entire Change of Control Agreement is not renewed at such time, the provisions relating to (i) the cash severance and continued employee benefits in the Change of Control context and (ii) all benefits outside of the Change of Control context would terminate and the remaining provisions of the Change of Control Agreement would continue in full force and effect and would terminate upon the date that all remaining obligations of the parties to under the Change of Control Agreement have been satisfied or, if earlier, on such date, which is prior to a Change of Control, that Mr. Caldwell is no longer employed by the Company.

[Table of Contents](#)

Option Grants to Barry G. Caldwell

On July 5, 2005, in connection with and effective as of the commencement of his employment as the Company's Chief Executive Officer, the Company's Board of Directors granted two stock options to Mr. Caldwell.

The first option (the "ISO Option"), which entitles Mr. Caldwell to purchase up to 65,896 shares of the Company's common stock at an exercise price of \$6.07 per share was issued under and pursuant to the terms and conditions of the Company's 1998 Stock Plan. The shares covered by the ISO Option vest over a four (4) year period, with 1/4th of the total number of shares subject to the ISO Option vesting on July 5, 2006 and 1/48th of the total number of shares subject to the ISO Option vesting each full month thereafter, provided that Mr. Caldwell continues to be a service provider to the Company on each such date.

The second option (the "Stand-Alone Option"), which entitles Mr. Caldwell to purchase up to 234,104 shares of the Company's common stock at an exercise price of \$6.07 per share was issued as a stand-alone option, outside of the Company's existing stock plans and as a material inducement to Mr. Caldwell accepting employment with the Company. The shares covered by the Stand-Alone Option vest over a four (4) year period, with 1/4th of the total number of shares subject to the Stand-Alone Option vesting on July 5, 2006 and 1/48th of the total number of shares subject to the Stand-Alone Option vesting each full month thereafter, provided that Mr. Caldwell continues to be a service provider to the Company on each such date.

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

(b) On July 5, 2005, Donald Hammond resigned as Chairman of the Company's Board of Directors. Mr. Hammond will continue to serve as a member of the Company's Board of Directors.

On July 5, 2005, Theodore A. Boutacoff resigned as Chief Executive Officer of the Company and transitioned into the role of a senior principal advisor to the new Chief Executive Officer concurrently with the commencement of Barry G. Caldwell's employment with the Company as the Company's new Chief Executive Officer. Mr. Boutacoff was also appointed as the Chairman of the Company's Board of Directors on July 5, 2005.

(c) On July 5, 2005, Barry G. Caldwell, age 54, was appointed as the Company's new Chief Executive Officer and as a member of the Company's Board of Directors. Mr. Caldwell was employed by Alcon Laboratories, Inc., a public company that develops, manufactures and markets ophthalmic pharmaceuticals, ophthalmic surgical equipment and devices, contact lens care products and other consumer eye care products that treat diseases and conditions of the eye, from 1979 until 2002. Mr. Caldwell most recently served as Vice President, Alcon Canada, Vice President, Corporate Business Development and Vice President, Government Affairs from 2000 until 2002. Prior to that, Mr. Caldwell served as Vice President and General Manager, Surgical from 1996 until 1999. Mr. Caldwell served in various other management and sales roles within Alcon Laboratories, Inc. from 1979 until 1996. Mr. Caldwell, has served as a member of the board of directors of A.R.C. Laser, GmbH, a privately held medical laser company, since 2002. Mr. Caldwell also served as a member of the board of directors of Laser Diagnostics Technologies, Inc., a privately held medical laser company that was acquired by Carl Zeiss Meditec AG, from 2002 until December 2004.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
10.1	Employment Agreement with Barry G. Caldwell, dated July 5, 2005.
10.2	Severance and Change of Control Agreement entered into by and between the Company and Barry G. Caldwell on July 5, 2005.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

IRIDEX CORPORATION

By: /s/ LARRY TANNENBAUM

Larry Tannenbaum

**Chief Financial Officer, Secretary and Senior Vice
President of Finance and Administration**

Date: **July 8, 2005**

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.1	Employment Agreement with Barry G. Caldwell, dated July 5, 2005.
10.2	Severance and Change of Control Agreement entered into by and between the Company and Barry G. Caldwell on July 5, 2005.

June 30, 2005

Barry G. Caldwell
4500 Lakeside Drive
Colleyville, Texas 76034

Dear Barry:

On behalf of the Board of Directors of IRIDEX Corporation, we are pleased to present our offer to you to become the new President and Chief Executive Officer of IRIDEX Corporation, and a member of the IRIDEX Board of Directors.

We have all enjoyed getting to know you, and look forward very much to welcoming you and Trena to IRIDEX. All of us have been impressed with your personal stature and character, your skills, and your achievements. We are convinced that you are very well qualified to help lead IRIDEX to continued growth and success. We also believe becoming President and CEO of IRIDEX is an outstanding and timely opportunity for you to capitalize upon your talents and track record to date, and for you to continue to attain your personal, career, and financial goals.

Position and Duties:

Your title will be President and Chief Executive Officer. As CEO you will be responsible for all strategic, operational, and financial aspects of running the Company, as well as all duties customary to such position and such duties as may be assigned to you by the Board, and you will be held accountable for delivering the growth in shareholder value and other results expected by the Board and its owners.

Careful thought has been given to compensation arrangements that would be appropriate to your professional stature and to IRIDEX precedents and policies. Accordingly, we offer you the following:

Compensation:

Salary: \$11,538.47 per bi-weekly pay period (annualized to \$300,000 per year).

Stock Options:

In addition to your salary, the Board of Directors has approved the following grant of stock options, conditional upon your acceptance of this offer:

- **Number:** 300,000 Shares of IRIDEX Common Stock, approximately 4.1 % of the 7,317,000 weighted shares outstanding as reported in our Q1 financial statements.
- **Vesting:** These options will vest over a period of 48 months and may be exercised by you in the following manner:
 - Ⓢ 12/48 (75,000) shares at one year, after your date of hire.
 - Ⓢ 1/48 (6,250) shares per month thereafter.
- **Option Price:** Fair market value on the trading day prior to your starting employment at IRIDEX. (i.e. If you start on July 5, 2005, the last trading day would be July 1, 2005)
- **Incentive Stock options (ISO) and Non-qualified (NQ) stock options:** Based on current regulations only the first \$100,000 of aggregate market value of the stock options (exercise price x # of shares) may be Incentive Stock options for any calendar year. Therefore IRIDEX will grant you Incentive stock options up to this allowed maximum with the balance of your option grant being Non-qualified stock options. For example, if the fair market value of the shares were about \$6.20/share then about 65,000 shares would be ISOs and 235,000 would be NQ options.

Incentive Compensation:

You will participate in IRIDEX' profit and executive bonus programs as currently constituted, and as they may be changed or amended in the future.

Other Benefits:

Insurance is available for health, dental, and prescriptions currently at a cost of 15% of the monthly premium. The company provides for life, short-term and long-term disability insurance, and business travel insurance. You may participate in the 401-k Plan beginning on the following entry dates: January 1, April 1, July 1 and October 1. Compensation for sick time is accrued in accordance with the IRIDEX Sick Time policy. Three weeks of paid time off for vacation is earned during your first year of employment and is accrued on a monthly basis from your date of hire. After five years of employment, your vacation accrual will increase as per the IRIDEX vacation policy. IRIDEX also compensates their eligible employees for ten holidays per year. You may participate in the Employee Stock Purchase Plan at the next enrollment date, August 15, 2005.

Relocation:

In anticipation of you establishing full-time residence near Mountain View, California, IRIDEX will reimburse the ordinary and necessary living, housing and moving expenses as itemized below. In most cases such reimbursed expenses will be grossed up by 44% to cover state and federal taxes. However, those reimbursed expenses which you are entitled to take as itemized deductions in your 1040, i.e. moving expenses will not be grossed up.

- **For up to 12 months prior to your move to California:**
 - o Temporary Housing
 - o Two roundtrip flights per month from the Bay Area to Fort Worth or vice versa for either you or Trena.
- **Customary Selling costs associated with home sale in Texas not paid by the buyer:** (including commissions, legal fees, transfer taxes, mortgage prepayment penalties, brokerage fees, title insurance, and other standard non-recurring fees.)
- **Customary Closing costs associated with purchase of home in California not paid by the seller:** (including commissions, legal fees, transfer taxes, brokerage fees, title insurance, and non-recurring fees. In addition IRIDEX will reimburse you up to a maximum of a one point lending fee on your mortgage loan.)
- **Moving Expenses:**
 - o Packing, unpacking, insuring, and transporting of household and personal goods (including 2 cars)
 - o Storage (up to a maximum of three months)

If, for any reason, you voluntarily terminate your employment within twelve (12) months from your hire date, these paid expenses will be reimbursed to IRIDEX on a prorated basis.

Please note that this offer of employment is made "at will" in which either you or the Company may terminate employment at any time with or without cause, with or without notice, and for any reason or no reason. Any contrary representations or agreements, which may have been made to you are superseded by this offer.

This offer is contingent upon your completing, signing and returning the enclosed Change of Control and Severance Agreement; Employment Application; Employment, Confidential Information, Invention Assignment, and Arbitration Agreement; and providing verification of eligibility to work in the United States in accordance with the provisions of the Immigration Reform and Control Act of 1986 before starting work.

You agree that, during the term of your employment with the Company, you will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during the term of your employment, nor will you engage in any other activities that conflict with your obligations to the Company. Before undertaking any proposed professional activities outside your duties at IRIDEX, you shall first obtain Board approval. Similarly, you agree not to bring any third party confidential information to the Company, including that of any former employer, and that in performing your duties for the Company you will not in any way utilize any such information.

To indicate your acceptance of the Company's offer, please sign and date this letter in the space provided below, sign the enclosed Change of Control and Severance Agreement; Employment Application; the Employment, Confidential Information, Invention Assignment, and Arbitration Agreement; and return them to me. Duplicate originals are enclosed for your records. This letter, along with the Change of Control and Severance Agreement; Employment Application and the Employment, Confidential Information, Invention Assignment, and Arbitration Agreement, set forth the terms of your employment with the Company and supersede any prior representations or agreements, whether written or oral. This letter may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument. This letter may not be modified, amended or superseded except by a written agreement, signed by the Company and by you and approved by the Compensation Committee of the Board of Directors.

Barry, we look forward to your prompt acceptance of our offer, and to your joining IRIDEX full-time as of July 5, 2005. We would appreciate your early response to this offer, and in any event by close of business on July 1, 2005, after which time this offer shall expire. We have very high expectations that your capabilities, experience, and winning attitude will make you an outstanding contributor on the IRIDEX team.

Sincerely,

/s/ Donald L. Hammond

Donald L. Hammond
Chairman of the Board

/s/ Theodore A. Boutacoff

Theodore A. Boutacoff
President & CEO

AGREED AND ACCEPTED:

/s/ Barry G. Caldwell

Barry G. Caldwell

July 5, 2005

Date

Enclosures:

- Second signature copy of this letter
- Employment Application
- Change of Control and Severance Agreement
- Employment, Confidential Information, Invention Assignment and Arbitration Agreement

IRIDEX CORPORATION

CHANGE OF CONTROL AND SEVERANCE AGREEMENT

This Change of Control and Severance Agreement (the "**Agreement**"), effective as of July 5, 2005 (the "**Effective Date**"), is made and entered into by and between Barry G. Caldwell (the "**Employee**") and IRIDEX Corporation, a Delaware corporation (the "**Company**"). Certain capitalized terms used in this Agreement are defined in Section 1 below.

RECITALS

WHEREAS, the Company has offered the Employee employment as the Company's Chief Executive Officer and the Employee has accepted such offer and has agreed to serve as the Company's Chief Executive Officer pursuant to the terms set forth in that certain offer letter (the "**Offer Letter**") from the Company to Employee dated July 5, 2005 and acknowledged and agreed to by Employee on July 5, 2005.

WHEREAS, as a condition to the Employee's appointment as the Company's Chief Executive Officer, the Company and the Employee entered into that certain Employment, Confidential Information, Invention Assignment, and Arbitration Agreement (the "**Confidential Information and Invention Assignment Agreement**") dated July 5, 2005.

WHEREAS, it is expected that from time to time the Company will consider the possibility of a change of control of the Company and the Board of Directors of the Company (the "**Board**") recognizes that such considerations can be a distraction to the Employee and can cause the Employee to consider alternative employment opportunities.

WHEREAS, the Board believes that it is in the best interests of the Company and its stockholders to provide Employee with certain severance benefits upon Employee's termination of employment without cause or upon a constructive termination, both (i) following a change of control of the Company and (ii) outside of the change of control context, in order to induce Employee to join the Company and to provide Employee with enhanced financial security and incentive to remain with the Company.

NOW, THEREFORE, in consideration of the mutual promises and covenants hereinafter set forth, the Company and Employee agree as follows:

AGREEMENT

1. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:

(a) Cause. “**Cause**” shall mean (i) any act of personal dishonesty taken by the Employee, which is intended to result in substantial personal enrichment of the Employee, (ii) the Employee’s conviction of or plea of nolo contendere to a felony or a material violation of federal or state law by Employee that the Board reasonably believes has had or will have a detrimental effect on the Company’s reputation or business, (iii) an intentional and reckless act by the Employee that constitutes misconduct or is injurious to the Company, or (iv) continued failure by the Employee to perform Employee’s duties and obligations to the Company at any time after there has been delivered to the Employee a written demand for performance from the Board, which describes the basis for the Company’s belief that the Employee has not previously performed his duties or met his obligations as an employee.

(b) Change of Control. “**Change of Control**” shall mean the occurrence of any of the following events:

(i) the approval by the stockholders of the Company of a merger or consolidation of the Company with any other corporation or entity; provided, however, that any merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation shall not be deemed a Change of Control;

(ii) the approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company’s assets;

(iii) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becoming the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company’s then outstanding voting securities; or

(iv) a change in the composition of the Board occurring within a 12-month period, as a result of which fewer than a majority of the directors are Incumbent Directors. “**Incumbent Directors**” shall mean directors who either (A) are directors of the Company as of the date immediately prior to the Change of Control, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of those directors whose election or nomination was not in connection with any transactions described in subsections (i), (ii), or (iii) or in connection with an actual or threatened proxy contest relating to the election of directors of the Company.

(c) Good Reason. “**Good Reason**” shall mean:

(i) without the Employee's express written consent, a significant reduction of the Employee's duties, responsibilities or position with the Company or surviving entity following the Change of Control relative to the Employee's duties, responsibilities or position with the Company in effect immediately prior to such reduction; provided, further, that in the event of a Change of Control, if the Employee is not named the Chief Executive Officer of the parent company of the Successor or, if there is no such parent company, Chief Executive Officer of the Successor or does not continue as Chief Executive Officer of the Company in the event of a Change of Control as specified in Section 1(b)(ii), (iii) or (iv), then the Employee will be deemed to have terminated his employment with the Company for Good Reason; or

(ii) without the Employee's express written consent, a material reduction, of the facilities and perquisites available to the Employee immediately prior to the Change of Control; provided, however, that Employee will be deemed not to have terminated his employment with the Company for Good Reason in the event that similar such reductions occur concurrently with and apply to the Company's senior management, including the Company's Vice Presidents; or

(iii) without the Employee's express written consent, a reduction of the Employee's base annual salary by fifteen percent (15%) or more as compared to the baseline equal to the Employee's base annual salary in effect immediately prior to the Change of Control; provided, however, that Employee will be deemed not to have terminated his employment with the Company for Good Reason in the event similar such reductions occur concurrently and apply to the Company's senior management, including the Company's Vice Presidents; or

(iv) without the Employee's express written consent, a material reduction by the Company in the kind or level of employee benefits to which the Employee is entitled immediately prior to the Change of Control with the result that the Employee's overall benefits package is significantly reduced; provided, however, that Employee will be deemed not to have terminated his employment with the Company for Good Reason in the event similar such reductions occur concurrently and apply to the Company's senior management, including the Company's Vice Presidents; or

(v) without the Employee's express written consent, the relocation of the Employee to a facility or a location more than twenty-five (25) miles from the Company's Mountain View headquarters, or the Employee's current location as of immediately prior to such relocation if the Employee's principal office is not then located at the Company's Mountain View headquarters; provided, however, that Employee will be deemed not to have terminated his employment with the Company for Good Reason in the event similar such relocation occurs concurrently with and applies to the Company's senior management, including the Company's Vice Presidents; or

(vi) any purported involuntary termination of the Employee by the Company which is not effected for Cause.

(d) Public Disclosure. "**Public Disclosure**" shall mean any "public disclosure" that would satisfy the requirements of Rule 101(e) of Regulation FD under the Securities Exchange Act of 1934, as amended.

(e) Successor. “**Successor**” shall mean any corporation or other entity that acquires all or substantially all of the assets or business of the Company, whether directly or indirectly and whether by purchase, lease, merger, reverse triangular merger, consolidation, liquidation or otherwise. For all purposes under this Agreement, the term “**Company**” shall include any Successor to the Company’s business and/or assets that executes and delivers the assumption agreement described in Section 7(a) or which becomes bound by the terms of this Agreement by operation of law to all or substantially all of the Company’s business and/or assets.

(f) Termination Date. “**Termination Date**” shall mean the effective date of any notice of termination delivered by one party to the other hereunder.

2. Term of Agreement. This Agreement shall be renewable upon the three year anniversary of the Effective Date; provided, however, that in the event that this entire Agreement is not renewed at such time, the provisions of Section 4(a)(ii), Section 4(a)(iii), and Section 4(b) shall terminate and the remaining provisions of this Agreement shall continue in full force and effect and shall terminate upon the date that all remaining obligations of the parties hereto under this Agreement have been satisfied or, if earlier, on such date, which is prior to a Change of Control, that the Employee is no longer employed by the Company.

3. At-Will Employment. The Company and the Employee acknowledge that the Employee’s employment is and shall continue to be at-will, as defined under applicable law and that nothing in this Agreement shall affect in any manner whatsoever the right or power of the Employee or the Company, or any Successor, to terminate Employee’s employment, for any reason. This Agreement does not constitute an express or implied promise of continued employment for any reason. If the Employee’s employment terminates for any reason, the Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, under law, or as may otherwise be established under the Company’s then existing employee benefit plans or policies at the time of termination.

4. Benefits.

(a) Termination within the Change of Control Context. If the Employee’s employment with the Company is: (x) terminated either (1) as a result of an actual termination by the Company or its Successor other than for Cause or (2) Employee terminates his employment for Good Reason, and (y) (1) or (2) occur at any time either: (i) between the Public Disclosure of any event that would result in a Change of Control and either the occurrence of such event or the abandonment or cessation of such event; or (ii) between the occurrence of a Change of Control and the nine (9) month anniversary of such Change of Control, then, subject to Employee’s executing a separation agreement and release of claims in a form satisfactory to the Company (the “**Separation Agreement**”), Employee shall be entitled to receive the following benefits from the Company:

(i) Vesting Acceleration. Fifty percent (50%) of the unvested shares subject to all of Employee's options to purchase shares of Company common stock (the "**Options**") outstanding on the date of such termination, whether granted on, before or after the date of this Agreement, and fifty percent (50%) of any of Employee's shares of Company common stock subject to a Company repurchase right upon Employee's termination of employment for any reason (the "**Restricted Stock**") whether acquired by Employee on, before or after the date of this Agreement, will immediately vest upon such termination. To the extent not expressly amended hereby, the terms and provisions otherwise applicable to such Options and Restricted Stock shall remain in full force and effect.

(ii) Cash Severance Payment. Employee will be paid continuing payments of severance pay in an aggregate amount equal to the amount of base salary Employee would have been paid at Employee's base salary rate, as then in effect, had Employee continued his employment with the Company through (a) the twelve (12) month anniversary of such termination, if such termination occurs prior to the one year anniversary of the date hereof or (b) the eighteen (18) month anniversary of such termination, if such termination occurs subsequent to the one year anniversary of the date hereof, as the case may be (with the relevant time period provided for in either (a) or (b), as the case may be, being referred to hereinafter as the "**Change of Control Severance Payment Period**"), and such aggregate amount will be paid ratably on a periodic basis through March 15 of the calendar year following the year of employment termination in accordance with the Company's normal payroll policies; provided, however, that if during the Change of Control Severance Payment Period Employee breaches the provisions of the Separation Agreement, all payments pursuant to this subsection will immediately cease.

(iii) Continued Employee Benefits. Employee will receive Company-paid coverage during the Change of Control Severance Payment Period for Employee and Employee's eligible dependents under the Company's Benefit Plans; provided, however, that if during the Change of Control Severance Payment Period Employee breaches the provisions of the Separation Agreement, all Company-paid coverage pursuant to this subsection will immediately cease.

(iv) Other Benefits. Employee will (a) receive his earned but unpaid base salary through the date of termination of employment, (b) receive all accrued vacation, expense reimbursements and any other benefits due to Employee through the date of termination of employment in accordance with established Company plans, policies and arrangements, and (c) be entitled to any other compensation or benefits from the Company to the extent provided under the applicable stock option agreement(s) or as may be required by law (for example, "COBRA" coverage under Section 4980B of the Code).

(v) Consulting Agreement. In the event that Employee's employment with the Company is terminated such that Employee is eligible to receive the benefits set forth in Sections 4(a)(i), 4(a)(ii) and 4(a)(iii) above, the Company will have the option of retaining Employee as a consultant to the Company to provide consulting services to the Company during the Change of Control Severance Payment Period or such shorter period as the parties may mutually agree, subject to the Company and Employee mutually agreeing on the terms of any such consulting relationship. Nothing in this Section 4(a)(v) shall require Employee to perform consulting services or in any way affect Employee's rights under this Agreement.

(b) Termination outside the Change of Control Context. If the Employee's employment with the Company is: (x) terminated either (1) as a result of an actual termination by the Company or its Successor other than for Cause or (2) Employee terminates his employment for Good Reason, and (y) (1) or (2) occur at any time that does not fall within the time period described in clauses (i) and (ii) of Section 4(a) above, then, subject to Employee's executing a Separation Agreement, Employee shall be entitled to receive the following benefits:

(i) Cash Severance Payment. Employee will be paid continuing payments of severance pay in an aggregate amount equal to the amount of base salary Employee would have been paid at Employee's base salary rate, as then in effect, had Employee continued his employment with the Company through (a) the six (6) month anniversary of such termination, if such termination occurs prior to the one year anniversary of the date hereof or (b) the twelve (12) month anniversary of such termination, if such termination occurs subsequent to the one year anniversary of the date hereof, as the case may be (with the relevant time period provided for in either (a) or (b), as the case may be, being referred to hereinafter as the "**Non-Change of Control Severance Payment Period**"), and such aggregate amount will be paid ratably on a periodic basis through March 15 of the calendar year following the year of employment termination in accordance with the Company's normal payroll policies; provided, however, that if during the Non-Change of Control Severance Payment Period Employee breaches the provisions of the Separation Agreement, all payments pursuant to this subsection will immediately cease.

(ii) Continued Employee Benefits. Employee will receive Company-paid coverage during the Non-Change of Control Severance Payment Period for Employee and Employee's eligible dependents under the Company's Benefit Plans; provided, however, that if during the Non-Change of Control Severance Payment Period Employee breaches the provisions of the Separation Agreement, all Company-paid coverage pursuant to this subsection will immediately cease.

(iii) Other Benefits. Employee will (a) receive his earned but unpaid base salary through the date of termination of employment, (b) receive all accrued vacation, expense reimbursements and any other benefits due to Employee through the date of termination of employment in accordance with established Company plans, policies and arrangements, and (c) be entitled to any other compensation or benefits from the Company to the extent provided under the applicable stock option agreement(s) or as may be required by law (for example, "COBRA" coverage under Section 4980B of the Code).

(iv) Consulting Agreement. In the event that Employee's employment with the Company is terminated such that Employee is eligible to receive the benefits set forth in Sections 4(b)(i) and 4(b)(ii) above, the Company will have the option of retaining Employee as a consultant to the Company to provide consulting services to the Company during the Non-Change of Control Severance Payment Period or such shorter period as the parties may mutually agree, subject to the Company and Employee mutually agreeing on the terms of any such consulting relationship. Nothing in this Section 4(b)(iv) shall require Employee to perform consulting services or in any way affect Employee's rights under this Agreement.

(c) Other Terminations. If at any time Employee voluntarily terminates Employee's employment with the Company or any parent or subsidiary of the Company (other than for Good Reason) or if the Company (or any parent or subsidiary of the Company employing Employee) terminates Employee's employment with the Company (or any parent or subsidiary of the Company) for Cause, then Employee will (i) receive his earned but unpaid base salary through the date of termination of employment, (ii) receive all accrued vacation, expense reimbursements and any other benefits due to Employee through the date of termination of employment in accordance with established Company plans, policies and arrangements, and (iii) not be entitled to any other compensation or benefits (including, without limitation, accelerated vesting of Options or Restricted Stock) from the Company except to the extent provided under the applicable stock option agreement(s) or as may be required by law (for example, "COBRA" coverage under Section 4980B of the Code).

(d) Termination due to Death or Disability. If Employee's employment with the Company (or any parent or subsidiary of the Company) is terminated due to Employee's death or Employee's becoming Disabled, then Employee or Employee's estate (as the case may be) will (i) receive the earned but unpaid base salary through the date of termination of employment, (ii) receive all accrued vacation, expense reimbursements and any other benefits due to Employee through the date of termination of employment in accordance with Company-provided or paid plans, policies and arrangements, and (iii) not be entitled to any other compensation or benefits from the Company except to the extent required by law (for example, "COBRA" coverage under Section 4980B of the Code).

(e) Exclusive Remedy. In the event of a termination of Employee's employment with the Company (or any parent or subsidiary of the Company), the provisions of this Section 4 are intended to be and are exclusive and in lieu of any other rights or remedies to which Employee or the Company may otherwise be entitled (including any contrary provisions in any written formal employment agreement, including, but not limited to, the Offer Letter, between the Company and Employee (any such agreements, an "**Employment Agreement**")), other than as provided under law, or as may otherwise be established under the Company's then existing employee benefit plans or policies at the time of termination.

5. Limitation on Payments. In the event that the benefits provided for in this Agreement or otherwise payable to the Employee (i) constitute "parachute payments" within the meaning of Section 280G of the Code, and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then the Employee's benefits under this Agreement shall be either:

- (a) delivered in full; or
- (b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by the Employee on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. Unless the Company and the Employee otherwise agree in writing, any determination required under this Section shall be made in writing by the Company's independent public accountants (the "**Accountants**"), whose determination shall be conclusive and binding upon the Employee and the Company for all purposes. For purposes of making the calculations required by this Section, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and the Employee shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section.

6. Non-Solicitation. During the Change of Control Severance Payment Period or the Non-Change of Control Severance Period, as applicable, the Employee, directly or indirectly, whether as employee, owner, sole proprietor, partner, director, member, consultant, agent, founder, co-venturer or otherwise, will not: (i) solicit, induce or influence any person to leave employment with the Company; or (ii) directly or indirectly solicit business from any of the Company's customers and users on behalf of any business that directly competes with the principal business of the Company.

7. Successors.

(a) Company's Successors. The rights and obligations of the Company under this Agreement will be binding upon and inure to the benefit of its successors, assigns, heirs, executors, administrators and transferees. A Successor to the Company shall assume the Company's obligations under this Agreement and agree expressly in writing to perform the Company's obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession.

(b) Employee's Successors. The rights and obligations of the Employee under this Agreement will be binding upon and inure to the benefit of the successors, assigns, heirs, executors and administrators of the Employee. Notwithstanding the foregoing, the Employee may not assign, pledge or otherwise transfer his rights or obligations under this Agreement without the prior written consent of the Company.

8. Notices.

(a) General. All notices and other communications required or permitted hereunder shall be in writing and shall be sent by first-class United States certified mail, return receipt requested, postage prepaid, or delivered in person, or delivered by overnight commercial messenger service, or by facsimile (with written confirmation of receipt). All notices shall be deemed delivered for purposes of this Agreement (i) when received, if delivered in person, (ii) when sent, if by facsimile (with confirmation of receipt), (iii) five (5) days after deposit in the U.S. mails, certified mail, return receipt requested, postage prepaid, (iv) one (1) business day after being sent via overnight commercial messenger service.

(b) Notices. All notices to the Company shall be addressed to:

IRIDEX Corporation
Attn: Chairman of the Board of Directors
1212 Terra Bella Avenue
Mountain View, California 94043
Phone: (650) 940-4700
Fax: (650) 940-4710

In the case of the Employee, notices shall be addressed to him at the home address which he most recently communicated to the Company in writing.

(c) Notice of Termination. Any termination by the Company for Cause or by the Employee as a result of a voluntary resignation or a termination of Employee's employment with the Company by Employee for Good Reason shall be communicated by a notice of termination to the other party hereto given in accordance with this Section. Such notice shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and shall specify the Termination Date (which shall be not more than 30 days after the deemed delivery of such notice). The failure by the Company to include in the notice any fact or circumstance which contributes to a showing of Cause shall not preclude the Company from asserting such fact or circumstance. The failure by the Employee to include in the notice any fact or circumstance which contributes to a showing of Good Reason shall not waive any right of the Employee hereunder or preclude the Employee from asserting such fact or circumstance in enforcing his rights hereunder.

9. Arbitration.

(a) Any dispute or controversy arising out of, relating to, or in connection with this Agreement, or the interpretation, validity, construction, performance, breach, or termination thereof, or any agreements between Employee and the Company relating to stock or stock options, or any other aspect of the employment relationship, shall be settled by binding arbitration to be held in Santa Clara County, California, in accordance with the National Rules for the Resolution of Employment Disputes then in effect of the American Arbitration Association (the "**Rules**"). The arbitrator may grant injunctions or other relief in such dispute or controversy. The decision of the arbitrator shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction and the prevailing party shall be entitled to injunctive relief in any court of competent jurisdiction to enforce the arbitration award. Each party in any arbitration shall be responsible for his, her or its own legal fees and costs, with the costs of the arbitrator borne by the Company.

(b) The arbitrator(s) shall apply California law to the merits of any dispute or claim, without reference to conflicts of law rules. The arbitration proceedings shall be governed by federal arbitration law and by the Rules, without reference to state arbitration law. The Employee hereby consents to the personal jurisdiction of the state and federal courts located in California for any action or proceeding arising from or relating to this Agreement or relating to any arbitration in which the parties are participants.

(c) The Employee understands that nothing in this Section modifies the Employee's at-will employment status. Either the Employee or the Company can terminate the employment relationship at any time and for any reason.

(d) THE EMPLOYEE HAS READ AND UNDERSTANDS THIS SECTION, WHICH DISCUSSES ARBITRATION. THE EMPLOYEE UNDERSTANDS THAT SUBMITTING ANY CLAIMS ARISING OUT OF, RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH OR TERMINATION THEREOF, OR ANY DISPUTE RELATED TO STOCK OPTIONS OR STOCK, TO BINDING ARBITRATION, CONSTITUTES A WAIVER OF THE EMPLOYEE'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF THE EMPLOYER/EMPLOYEE RELATIONSHIP, INCLUDING BUT NOT LIMITED TO, THE FOLLOWING CLAIMS:

(i) ANY AND ALL CLAIMS FOR WRONGFUL DISCHARGE OF EMPLOYMENT; BREACH OF CONTRACT, BOTH EXPRESS AND IMPLIED; BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, BOTH EXPRESS AND IMPLIED; NEGLIGENT OR INTENTIONAL INFLICTION OF EMOTIONAL DISTRESS; NEGLIGENT OR INTENTIONAL MISREPRESENTATION; NEGLIGENT OR INTENTIONAL INTERFERENCE WITH CONTRACT OR PROSPECTIVE ECONOMIC ADVANTAGE; AND DEFAMATION.

(ii) ANY AND ALL CLAIMS FOR VIOLATION OF ANY FEDERAL STATE OR MUNICIPAL STATUTE, INCLUDING, BUT NOT LIMITED TO, TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, THE CIVIL RIGHTS ACT OF 1991, THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, THE AMERICANS WITH DISABILITIES ACT OF 1990, THE FAIR LABOR STANDARDS ACT, THE CALIFORNIA FAIR EMPLOYMENT AND HOUSING ACT, AND LABOR CODE SECTION 201, *et seq*;

(iii) ANY AND ALL CLAIMS ARISING OUT OF ANY OTHER LAWS AND REGULATIONS RELATING TO EMPLOYMENT OR EMPLOYMENT DISCRIMINATION.

10. Miscellaneous Provisions.

(a) No Duty to Mitigate. The Employee shall not be required to mitigate the amount of any payment contemplated by this Agreement, nor shall any such payment be reduced by any earnings that the Employee may receive from any other source.

(b) Waiver. No provision of this Agreement may be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Employee and by an authorized officer of the Company (other than the Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Integration. This Agreement, the Offer Letter and the Confidential Information and Invention Assignment Agreement constitute the entire agreement of the parties hereto with respect to the subject matter hereof. No future agreements between the Company and Employee may supersede this Agreement, unless they are in writing and specifically mention this Section 10(c).

(d) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the internal substantive laws, but not the conflicts of law rules, of the State of California.

(e) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(f) No Representations. Employee represents that he has had the opportunity to consult with an attorney of his choice, and has carefully read and understands the scope and effect of the provisions of this Agreement. Employee further represents that he has not relied upon any representations or statements made by the Company or anyone else regarding his employment with the Company which are not specifically set forth in this Agreement.

(g) Employment Taxes. All payments made pursuant to this Agreement shall be subject to withholding of applicable income and employment taxes.

(h) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

[Remainder of page intentionally left blank. Signature page follows.]

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth below.

COMPANY

IRIDEX CORPORATION

By: /s/ Larry Tannenbaum

Title: Chief Financial Officer

EMPLOYEE

BARRY G. CALDWELL

By: /s/ Barry G. Caldwell

Title: Chief Executive Officer