

FIBERSTARS INC /CA/
Form DEF 14A
May 01, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

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

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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 Under Rule 14a-12

FIBERSTARS, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than 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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(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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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

May 1, 2006

Dear Shareholder:

This year's annual meeting of shareholders will be held on June 15, 2006 at 1:00 P.M., local time, at the principal executive offices of Fiberstars, Inc., 32000 Aurora Road, Solon, Ohio 44139. You are cordially invited to attend.

The Notice of Annual Meeting of Shareholders and a Proxy Statement, which describe the formal business to be conducted at the meeting, have been made a part of this invitation.

After reading the Proxy Statement, please promptly mark, date, sign and return the enclosed proxy in the pre-paid envelope to ensure that your shares will be represented. **YOUR SHARES CANNOT BE VOTED UNLESS YOU DATE, SIGN AND RETURN THE ENCLOSED PROXY OR ATTEND THE ANNUAL MEETING IN PERSON.** Regardless of the number of shares you own, your careful consideration of, and vote on, the matters before our shareholders are important.

The Proxy Statement and related proxy form, as well as a copy of the Company's 2005 Annual Report to Shareholders, are being sent on or about May 11, 2006.

The Board of Directors and management look forward to seeing you at the annual meeting.

Very truly yours,

/s/ John M. Davenport
John M. Davenport
President and Chief Executive Officer

**FIBERSTARS, INC.
32000 AURORA ROAD
SOLON, OHIO 44139**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD JUNE 15, 2006**

TO THE SHAREHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Fiberstars, Inc. (the Company) will be held on June 15, 2006, at 1:00 P.M., local time, at the principal corporate offices of Fiberstars, Inc., 32000 Aurora Road, Solon, Ohio, for the following purposes:

1.

To elect eight directors to serve for the ensuing year or until their successors are elected and qualified, the nominees for which are as follows: John M. Davenport, John B. Stuppin, Jeffrey H. Brite, Ronald A. Casentini, Michael Kasper, Paul von Paumgarten, David N. Ruckert and Philip E. Wolfson.

2.

To consider and vote upon a proposal to increase the number of shares of the Company's common stock reserved for issuance under the Company's 2004 Stock Incentive Plan by 500,000 shares;

3.

To consider and vote upon a proposal to increase the number of shares of the Company's common stock reserved for issuance under the Company's 1994 Employee Stock Purchase Plan by 50,000 shares;

4.

To consider and vote upon a proposal to reincorporate the Company from California to Delaware;

5.

To ratify the appointment of Grant Thornton LLP as the Company's independent auditors for the fiscal year ending December 31, 2006; and

6.

To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only shareholders of record at the close of business on May 11, 2006 are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof.

BY ORDER OF THE BOARD OF
DIRECTORS

/s/ John M. Davenport
John M. Davenport
President and Chief Executive Officer

Solon, Ohio
May 1, 2006

IMPORTANT: Please mark, date, sign and promptly mail the enclosed proxy card at your earliest convenience in the accompanying postage-paid envelope to ensure that your shares are represented at the meeting. If you attend the meeting, you may choose to vote in person even if you have previously sent in your proxy card.

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PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS

**FIBERSTARS, INC.
32000 AURORA ROAD
SOLON, OHIO 44139**

INFORMATION CONCERNING SOLICITATION AND VOTING OF PROXIES

General

The enclosed proxy is solicited on behalf of the Board of Directors of Fiberstars, Inc., a California corporation (Fiberstars or the Company), for use at the Annual Meeting of Shareholders (the Annual Meeting) to be held on June 15, 2006 at 1:00 P.M., local time, or at any adjournments or postponements thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Shareholders. The Annual Meeting will be held at the principal executive offices of Fiberstars, Inc., 32000 Aurora Road, Solon, Ohio.

This Proxy Statement and the accompanying form of proxy are first being mailed to shareholders on or about May 11, 2006. The cost of soliciting these proxies will be borne by the Company. Regular employees and directors of the Company may solicit proxies in person, by telephone, or by mail. No additional compensation will be given to employees or directors for such solicitation. The Company will request brokers and nominees who hold stock in their names to furnish proxy material to beneficial owners of the shares and will reimburse such brokers and nominees for their reasonable expenses incurred in forwarding solicitation material to such beneficial owners.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use either by delivering to the Company (32000 Aurora Road, Solon, Ohio, Attention: John M. Davenport) a written notice of revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. If a proxy is properly signed and not revoked, the shares it represents will be voted in accordance with the instructions of the shareholder.

Record Date and Share Ownership

Only shareholders of record at the close of business on May 11, 2006 (the Record Date), will be entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof. The Company has 11,316,110 shares of Common Stock, par value \$.0001 per share (Common Stock), issued and outstanding.

Voting

Generally, each share of Common Stock held as of the Record Date entitles its holder to one vote on matters to be acted upon at the Annual Meeting, including the election of directors. However, if, prior to the voting to elect directors, any shareholder gives notice at the Annual Meeting of his or her intention to cumulate his or her votes, and if the names of the candidate or candidates for whom that shareholder intends to vote have been placed in nomination prior to the voting, then all shareholders may cumulate their votes for candidates in nomination. This means that each shareholder may give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares he or she holds, or such shareholder may distribute that total number of votes among as many candidates as he or she thinks fit. The person authorized to vote shares represented by executed proxies in the enclosed form (if authority to vote for the election of directors is not withheld) will have full discretion and authority to vote cumulatively and to allocate votes among any or all of the nominees as he may determine or, if authority to vote for a specified candidate or candidates has been withheld, among those candidates for whom authority to vote has not been withheld. On all matters except the election of directors, each share carries one vote.

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the Company's transfer agent, which will act as Inspector of Elections. The Inspector of Elections will also determine whether or not a quorum is present. Except with respect to the election of directors and except in certain other specific circumstances including reincorporation in Delaware, the affirmative vote of a majority of shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required

quorum) is required under California law for approval of proposals presented to shareholders. In general, California law also provides that a quorum consists of a majority of the shares entitled to vote, represented either in person or by proxy. The reincorporation from California to Delaware must be approved by the affirmative votes of a majority of the outstanding shares entitled to vote. The Inspector of Elections will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum but as not voting for purposes of determining the approval of any matter submitted to the shareholders for a vote.

The shares represented by the proxies received, properly marked, dated, signed and not revoked will be voted at the Annual Meeting. Where such proxies specify a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specifications made. Any proxy in the enclosed form which is returned but is not marked will be voted **FOR** the election of the eight nominees for director listed in this Proxy Statement, **FOR** the approval of the amendment to 2004 Stock Incentive Plan, **FOR** the approval of the amendment to 1994 Employee Stock Purchase Plan, **FOR** the approval of the reincorporation of the Company to Delaware, **FOR** the ratification of the appointment of Grant Thornton, LLP as the Company's independent auditors and as the proxy holders deem advisable on other matters that may properly come before the meeting. If a broker indicates on the enclosed proxy or its substitute that it does not have discretionary authority as to certain shares to vote on a particular matter (broker non-votes), those shares will not be considered as voting with respect to that matter. While there is no definitive statutory or case law authority in California concerning the proper treatment of abstentions and broker non-votes, the Company believes that the tabulation procedures to be followed by the Inspector of Elections are consistent with the general statutory requirements in California concerning voting of shares and determination of a quorum.

PROPOSAL NO.1: ELECTION OF DIRECTORS**Nominees**

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees named below, regardless of whether any other names are placed in nomination by anyone other than one of the proxy holders. If the candidacy of any one or more of such nominees should, for any reason, be withdrawn, the proxy holders will vote in favor of the remainder of those nominated and for such substituted nominees, if any, as shall be designated by the Board of Directors, taking into account any recommendations of the Nominating and Corporate Governance Committee, or the number of directors to be elected at this time may be reduced by the Board of Directors. The Board of Directors has no reason to believe that any of the persons named will be unable or unwilling to serve as a nominee or as a director if elected.

If a quorum is present and voting, the nominees receiving the highest number of votes will be elected as directors at the Annual Meeting to serve until the next annual meeting or until their respective successors are duly elected or appointed.

The Company's Bylaws provide that the number of directors of the Company shall be no less than five and no more than nine, with the exact number within such range to be fixed by amendment of the Bylaws adopted by the shareholders or by the Board of Directors. The number of directors is currently fixed at eight. The Nominating and Corporate Governance Committee has recommended, and the Board of Directors has designated, the eight nominees listed below. Biographical information concerning each nominee is set forth below:

Name	Age	Director Since	Background
John M. Davenport	60	2005	Mr. Davenport was appointed Chief Executive Officer and a director in July 2005. Mr. Davenport joined us in November 1999 as Vice President, Chief Technology Officer and was appointed Chief Operating Officer in July 2003. Prior to joining Fiberstars, Mr. Davenport served as President of Unison Fiber Optic Lighting Systems, LLC, from 1998 to 1999. Mr. Davenport began his career at GE Lighting in 1972 as a research physicist and thereafter served 25 years in various capacities including GE Lighting's research and development manager and as development manager for high performance LED projects. He is a recognized expert in light sources, lighting systems and lighting applications, with special emphasis in low wattage discharge lamps, electronic ballast technology and distributed lighting systems using fiber optics.
John B. Stuppin	72	1993	Mr. Stuppin was elected Chairman of the Board in May 1995. Since September 1987, Mr. Stuppin has served in various executive capacities with Neurobiological Technologies, Inc. (NTI), a biomedical development company he co-founded, and he currently serves as a director of NTI. Mr. Stuppin also has been an investment banker and a venture capitalist, with over 25 years of experience in the founding and management of companies active in emerging technologies.

Jeffrey H. Brite	58	2003	Mr. Brite joined the Board of Fiberstars in July 2003. From January 2002 to the present he has served as Director of Product Development for Gensler, a leading global design, planning and strategic consulting firm. From 1996 to 2002, prior to joining Gensler, Mr. Brite was partner and Chief Executive Officer of NeoRay, a lighting company which was sold to Cooper Lighting. Prior to joining NeoRay, Mr. Brite founded a lighting distribution business and a real estate firm.
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Name	Age	Director Since	Background
Ronald A. Casentini	67	2005	Mr. Casentini joined the board in September 2005. Since 1980 he has served as treasurer, secretary and a director of Xidak, Inc., a software company he co-founded. He has also served as president and a director of The Anorcase Foundation, a private operating foundation since November 2000. Mr. Casentini has more than 30 years experience working with entrepreneurial companies, particularly in the emerging technology sector, and venture capital investment firms. He has served in various executive capacities for a number of companies with which he was associated, principally as Chief Financial Officer and financial advisor to their boards of directors.
Michael Kasper	56	2004	Mr. Kasper joined the Board in November 2004. From March 2003 to April 2006 he served as President and CEO of United Way of Sonoma-Mendocino-Lake counties in California. From January 1997 to March 2003, he served as a director for United Way of Sonoma-Mendocino-Lake counties in California. Prior to that, from February 1996 to June 2001, Mr. Kasper was Vice President, Human Resources at JDS Uniphase Corporation, a telecommunications firm. At JDS Uniphase he was operations general manager at their OCLI subsidiary. From June 1972 to September 1995, Mr. Kasper was an executive, holding various positions, at Procter & Gamble Company, a consumer products company.
Paul von Paumgarten	59	2004	Mr. von Paumgarten joined the Board in October 2004. From 1982 up to the present he has held various positions at Johnson Controls, Inc., most recently serving as Director, Energy & Environment since October 1999. Prior to that he was Director of Performance Contracts at Johnson Controls, Inc. Mr. von Paumgarten also was instrumental in the formation of LEED™ (Leadership in Energy and Environmental Design), the energy efficiency qualification program of the U.S. Green Building Council. This is a qualification program for sustainable design developed by an industry coalition representing many segments of the building industry. Mr. von Paumgarten serves as treasurer for LEED™.
David N. Ruckert	68	1987	Mr. Ruckert joined the Company in November 1987 as President, Chief Operating Officer and a director. He served as Chief Executive Officer of the Company from October 1988 to

July 2005 and served as Secretary of the Company from February 1990 to February 1994. From June 1985 to October 1987, he was Executive Vice President of Greybridge, a toy company which he co-founded that was later acquired by Worlds of Wonder in 1987. Prior to that time, he was Executive Vice President of Atari from October 1982 to June 1984 and was a Manager/ Vice President of Bristol-Myers Company in New York from October 1966 to October 1982.

Philip E. Wolfson

61

1987

Dr. Wolfson joined the Board in January 1986. Since 1998, Dr. Wolfson has served as Chief Executive Officer of Phytos, Inc., an herbal medicine development company. He has been Assistant Clinical Professor at the University of California School of Medicine in San Francisco since 1986 and has maintained a private practice in psychiatric medicine since 1982. Dr. Wolfson also served as a director and a consultant to NTI from 1989 to 1992.

Board Meetings and Committees

The Board of Directors held a total of seven meetings during the fiscal year ended December 31, 2005. All directors attended at least 75% of the aggregate number of meetings of the Board of Directors and of the committees on which such directors serve. Mr. Davenport, who joined the Board in July 2005, and Mr. Casentini, who joined the Board in September of 2005, attended at least 75% of the meetings of the Board of Directors and of the committees on which they serve since their respective appointments. In 2005, Mr. Ruckert represented the Board at the annual meeting. The Board of Directors has appointed a Compensation Committee, an Audit Committee and a Nominating and Corporate Governance Committee. The Board has determined that each director who serves on these committees is independent, as that term is defined by applicable listing standards of The NASDAQ Stock Market and SEC rules. The Board has approved a charter for each of these committees which can be obtained by writing the Company at Fiberstars, Inc., 32000 Aurora Road, Solon, Ohio 44139.

The Compensation Committee of the Board of Directors, which currently consists of Messrs. Wolfson (Chairman), Casentini and Kasper, held two meetings in 2005. The Compensation Committee's primary functions are to discharge the responsibilities of the Board of Directors relating to compensation of the Company's executive officers and to produce an annual report on executive compensation for inclusion in the Company's annual proxy statement. Other specific duties and responsibilities of the Compensation Committee are to: review and recommend to the Board corporate goals and objectives relevant to compensation of the chief executive officer, evaluate his performance in light of such goals and objectives and set his compensation level based on this evaluation; develop and monitor compensation arrangements for executive officers of the Company, including review and approval of individual compensation; recommend to the Board guidelines for the review of the performance and establishment of compensation and benefit policies for all other employees; make recommendations regarding compensation plans and policies; administer the Company's stock option plans and other compensation plans; and make recommendations to the Board regarding compensation of the Board of Directors.

The Audit Committee of the Board of Directors, which currently consists of Messrs. Casentini (Chairman), Stuppin and Kasper, held five meetings in 2005. The Audit Committee's primary functions are to assist the Board of Directors in its oversight of the integrity of the Company's financial statements and other financial information, the Company's compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company's independent auditors and the performance of the Company's internal audit function. Other specific duties and responsibilities of the Audit Committee are to: appoint, compensate, evaluate and, when appropriate, replace the Company's independent auditors; review and pre-approve audit and permissible non-audit services; review the scope of the annual audit; monitor the independent auditors' relationship with the Company; and meet with the independent auditors and management to discuss and review the Company's financial statements, internal controls, and auditing, accounting and financial reporting processes. The Board of Directors has determined that each of Messrs. Casentini and Stuppin is an audit committee financial expert as defined by SEC rules.

Nominating and Corporate Governance Committee of the Board of Directors, which currently consists of Messrs. Kasper (Chairman), Wolfson and von Paumgarten held two meetings in 2005. The Nominating and Corporate Governance Committee's primary functions are to seek, evaluate and recommend nominees for election to the Board of Directors and to oversee matters of corporate governance. Other specific duties and responsibilities of the Nominating and Corporate Governance Committee are to: determine the composition of the committees of the Board; make recommendations regarding candidates for director proposed by shareholders; consider and plan for executive officer succession as well as review management development and succession programs; review on an annual basis the performance of the Board and of management; and consider and make recommendations on matters related to the practices, policies and procedures of the Board.

Director Nominations

The Board of Directors nominates directors for election at each annual meeting of shareholders and elects new directors to fill vacancies when they arise. The Nominating and Corporate Governance Committee has the responsibility to identify, evaluate, recruit and recommend qualified candidates to the Board of Directors for nomination or election.

The Board of Directors has as an objective that its membership be composed of experienced and dedicated individuals with diversity of backgrounds, perspectives and skills. The Nominating and Corporate Governance Committee will select candidates for director based on their character, judgment, diversity of experience, business

acumen, and ability to act on behalf of all shareholders. The Nominating and Corporate Governance Committee believes that nominees for director should have experience, such as experience in management or accounting and finance, or industry and technology knowledge, that may be useful to the Company and the Board, high personal and professional ethics, and the willingness and ability to devote sufficient time to effectively carry out his or her duties as a director. The Nominating and Corporate Governance Committee believes it appropriate for at least one, and, preferably, multiple, members of the Board to meet the criteria for an audit committee financial expert as defined by SEC rules, and for a majority of the members of the Board to meet the definition of independent director under the rules of The NASDAQ Stock Market. The Nominating and Corporate Governance Committee also believes it appropriate for certain key members of the Company's management to participate as members of the Board.

Prior to each annual meeting of shareholders, the Nominating and Corporate Governance Committee identifies nominees first by evaluating the current directors whose term will expire at the annual meeting and who are willing to continue in service. These candidates are evaluated based on the criteria described above, including as demonstrated by the candidate's prior service as a director, and the needs of the Board with respect to the particular talents and experience of its directors. In the event that a director does not wish to continue in service, the Nominating and Corporate Governance Committee determines not to re-nominate the Director, or a vacancy is created on the Board as a result of a resignation, an increase in the size of the board or other event, the Committee will consider various candidates for Board membership, including those suggested by the Committee members, by other Board members, by any executive search firm engaged by the Committee and by shareholders. A shareholder who wishes to suggest a prospective nominee for the Board should notify the Secretary of the Company or any member of the Committee in writing, with any supporting material the shareholder considers appropriate, at the following address: Fiberstars, Inc., 32000 Aurora Road, Solon, Ohio 44139.

Shareholder Communications with the Board of Directors

If you wish to communicate with the Board of Directors, you may send your communication in writing to: Secretary, Fiberstars, Inc., 32000 Aurora Road, Solon, Ohio 44139. You must include your name and address in the written communication and indicate whether you are a shareholder of the Company. The Secretary will review any communication received from a shareholder, and all material communications from shareholders will be forwarded to the appropriate director or directors or committee of the Board based on the subject matter.

Director Compensation

During 2005, each non-employee director received \$10,000 per year and the Chairman of the Board and the Chairman of the Audit Committee received an additional \$2,500 per year. Commencing in 2006, the Chairman of the Board will receive \$40,000 per year, and the Chairmen of the Audit Committee and the Governance Committee will receive \$20,000 per year, the Chairman of the Compensation Committee will receive \$15,000 per year and each other non-employee director will receive \$12,000 per year.

Under the terms of the Company's 2004 Stock Incentive Plan, each newly appointed non-employee director receives an option to purchase 10,000 shares of Common Stock at an exercise price of 100% of the fair market value of the stock on the date of grant, which option vests in twelve equal monthly installments following the date of grant. In addition, following each annual meeting of the Company's shareholders, each non-employee director who will continue to serve as a member of the Board of Directors automatically receives an option to purchase 7,000 shares of Common Stock at an exercise price of 100% of the fair market value of the stock on the date of grant, which option vests in twelve equal monthly installments following the date of grant, and each of the Chairman of the Board and the Chairman of the Audit Committee are to receive an additional option to purchase 3,000 shares under the same terms.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee of the Board of Directors currently consists of John B. Stuppin, Michael Kasper and Philip Wolfson. No director serving on the Compensation Committee is or has been an officer or employee of the Company or any of the Company's subsidiaries. No interlocking relationships exist between our Board of Directors or Compensation Committee and the board of directors or compensation committee of any other entity, nor has any interlocking relationship existed in the past.

Required Vote

The eight nominees receiving the highest number of votes at the Annual Meeting will be elected as directors of the Company.

Recommendation of the Board of Directors

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** EACH OF THE NOMINEES LISTED ABOVE.

SECURITY OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT

The following table sets forth certain information with respect to beneficial ownership of the Company's Common Stock as of April 15, 2006 as to (i) each person known by the Company to own beneficially more than five percent of the outstanding shares of Common Stock, (ii) each of the Company's directors, (iii) the Company's Chief Executive Officer and each of the Company's executive officers (Named Executive Officers), and (iv) all executive officers and directors of the Company as a group. Unless otherwise specified, the address for each officer and director is 32000 Aurora Road, Solon, OH 44139.

The table should be read with the understanding that more than one person may be the beneficial owner or possess certain attributes of beneficial ownership with respect to the same securities. Therefore, special attention should be given to the footnotes.

Name and Address	Shares Beneficially Owned(1)	
	Number	Percent of Outstanding Common Stock(2)
5% Shareholders:		
Welch & Forbes LLC 45 School St. Boston, MA 02108(3)	936,923	8.3 %
Wall Street Associates 12000 Prospect St., Ste. 100 La Jolla, CA 920347(4)	571,800	5.1 %
Directors and Named Executive Officers:		
John M. Davenport(5)	184,957	1.6
John B. Stupp(6)	214,942	1.9
Jeffrey H. Brite(7)	63,417	*
Ronald A. Casentini(8)	7,500	*
Michael Kasper (9)	19,167	*
Paul von Paumgarten(10)	16,417	*
David N. Ruckert	253,073	2.2
Philip Wolfson(11)	74,708	*
Roger Buelow(12)	46,102	*

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Robert Connors(13)	62,500	*
Ted des Enfants(14)	12,500	*
Barry R. Greenwald(15)	50,202	*
All executive officers and directors as a group (12) persons)(16)	1,005,483	8.5 %

*

Less than one percent

(1)

To Fiberstars knowledge, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws, where applicable, and the information contained in the footnotes to this table.

(2)

Based on 11,316,110 shares outstanding as of April 15, 2006. In addition, shares issuable pursuant to options and warrants which may be exercised within 60 days of April 15, 2006 are deemed to be issued and outstanding and have been treated as outstanding in calculating the percentage ownership of those individuals

possessing such interest, but not for any other individuals. Thus, the number of shares considered to be outstanding for the purposes of this table may vary depending on the individuals' particular circumstances.

(3)

Based solely on information provided by Welch & Forbes LLC. in its Form 13F filed with the Securities and Exchange Commission on January 12, 2006, Welch & Forbes LLC has sole voting power with respect to 791,223 shares and sole disposition power as to all shares.

(4)

Based solely on information to an amended Schedule 13G, filed by Wall Street Associates with the Securities and Exchange Commission on February 13, 2006, Wall Street Associates has sole voting power with respect to 196,3000 of these shares and sole dispositive power with respect to all of these shares.

(5)

Includes 130,000 shares subject to warrants that are exercisable within 60 days of April 15, 2006.

(6)

Includes 64,167 shares subject to options that are exercisable within 60 days of April 15, 2006 and 8,060 shares subject to warrants that are exercisable within 60 days of April 15, 2006.

(7)

Consists of 63,417 shares subject to options exercisable within 60 days of April 15, 2006.

(8)

Consists of 7,500 shares subject to options that are exercisable within 60 days of April 15, 2006.

(9)

Consists of 19,167 shares subject to options that are exercisable within 60 days of April 15, 2006.

(10)

Consists of 16,417 shares subject to options exercisable within 60 days of April 15, 2006.

(11)

Consists of 74,708 shares subject to options exercisable within 60 days of April 15, 2006.

(12)

Includes 13,125 shares subject to options exercisable within 60 days of April 15, 2006.

(13)

Consists of 57,500 shares subject to options exercisable within 60 days of April 15, 2006.

(14)

Consists of 12,500 shares subject to options exercisable within 60 days of April 15, 2006.

(15)

Consists of 38,750 shares subject to options exercisable within 60 days of April 15, 2006.

(16)

Includes 521,763 shares subject to options and warrants that are exercisable within 60 days of April 15, 2006.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee operates under a written charter adopted by the Board of Directors. A copy of the Audit Committee Charter may be obtained from the Company. The members of the Audit Committee are Ronald A. Casentini, John B. Stuppin and Michael Kasper, each of whom meets the independence standards established by The Nasdaq Stock Market.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors and is responsible for providing independent, objective oversight of the Company's accounting functions and internal controls. It is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent auditors are responsible in their report for expressing an opinion on the conformity of those financial statements with generally accepted accounting principles.

The Audit Committee reviewed and has discussed the audited financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 with the Company's management and its independent auditors. The Audit Committee met privately with the independent auditors and discussed issues deemed significant by the auditors, including those required by the Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards), as amended. In addition, the Audit Committee has received the written disclosures from the independent auditors required by the Independence Standards Board Standard No. 1 (Independence Discussions with the Audit Committee) and discussed with the independent auditors their independence from the Company.

Based upon the reviews and discussions outlined above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the Securities and Exchange Commission.

The foregoing report has been furnished by the Audit Committee of the Board of Directors of Fiberstars, Inc.

AUDIT COMMITTEE

Ronald A. Casentini
John B. Stuppin
Michael Kasper

EXECUTIVE COMPENSATION AND OTHER MATTERS**Summary Compensation Table**

The following table sets forth all compensation for services rendered in all capacities to the Company for the three fiscal years ended December 31, 2005 for our Chief Executive Officer and our four other most highly compensated executive officers as of December 31, 2005.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation		Compensation Awards	All Other Compensation(1)
		Salary(\$)	Bonus(\$)	Securities Underlying Options(#)	
John Davenport(2) President/CEO	2005	225,000	\$	200,000	\$ 773
	2004	200,000		20,000	773
	2003	187,500		20,000	773
David N. Ruckert(3) CEO/President	2005	201,161			345,131 (4)
	2004	221,384			10,555
	2003	207,923		25,000	11,125
Barry R. Greenwald Senior Vice President, Pool & Spa Division	2005	189,500			1,113
	2004	176,000		15,000	1,113
	2003	185,823			1,603
Ted des Enfants Vice President, U.S. Commercial Sales	2005	175,000		15,000	258
	2004	175,000		25,000	258
	2003				679
Robert A. Connors Vice President, Finance Chief Financial Officer	2005	166,000			807
	2004	166,000			807
	2003	156,000		15,000	715
Roger Buelow Chief Technology Officer/Vice President	2005	111,600			258

(1)

Except as noted, represents premiums paid on life insurance policies for the officer's benefit.

(2)

Mr. Davenport became Chief Executive Officer effective July 1, 2005 prior to which he was President and Chief Technology Officer of the Company.

(3)

Mr. Ruckert stepped down as Chief Executive Officer on July 1, 2005 and served as President until September 30, 2006. Reported Compensation includes amounts paid for the entire fiscal year.

(4)

Includes \$2,500 in Directors Fees, \$10,555 in life insurance and \$332,076 in severance payments.

Stock Options Granted in Fiscal 2005

The following table sets forth certain information for the year ended December 31, 2005 with respect to stock options granted to the individuals named in the Summary Compensation Table above.

Option Grants in Fiscal Year 2005

Name	Individual Grants				
	Number of Securities Underlying Options Granted (#)(1)	% of Total Options Granted to Employees in Fiscal Year(2)	Exercise or Base Price (\$/Share)(3)	Expiration Date(4)	Grant Date Value(5)
John Davenport	200,000	53 %	\$ 9.60	6/27/2010	\$ 863,027
David N. Ruckert(6)					
Barry Greenwald					
Ted des Enfants	15,000	4 %	\$ 9.23	12/8/2010	74,920
Robert Connors					
Roger Buelow	25,000	7 %	\$ 10.64	6/30/2010	119,565

(1)

Such stock options vest as to 25% of the shares covered by the respective options on each anniversary of the grant date, becoming fully vested on the fourth anniversary of the date of grant. Under the terms of the Company's 2004 Stock Incentive Plan, the Board of Directors or a duly appointed committee of the Board retains the discretion, subject to certain limitations within the Option Plan, to modify, extend, or renew outstanding options and to reprice outstanding options, and to accelerate the vesting of options in the event of any merger, consolidation, or reorganization in which the Company is not the surviving corporation. Options may be repriced by canceling outstanding options and reissuing new options with an exercise price equal to the fair market value on the date of reissue which may be lower than the original exercise price of such canceled options.

(2)

Based on 375,000 options granted to employees in Fiscal 2005.

(3)

The exercise price on the date of grant was equal to 100% of the fair market value on the date of grant.

(4)

Subject to earlier termination upon certain events related to termination of employment.

(5)

The grant date present value is based on a Black-Scholes calculation using the following assumptions: time of exercise: 5.02 years; risk-free interest rate: 3.58%; volatility: 49%; dividend yield: none.

(6)

Excludes option grants after Mr. Ruckert ceased being an officer. See Certain Transactions .

Option Exercises and Fiscal 2005 Year End-Value

The following table provides certain information concerning exercises of options to purchase the Company's Common Stock in the fiscal year ended December 31, 2005, and unexercised options held as of December 31, 2005, by the individuals named in the Summary Compensation Table.

Aggregate Options Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#) Exercisable/Unexercisable		Value of Unexercised In-the-Money Options at Fiscal Year-End (\$)(1) Exercisable/Unexercisable	
John Davenport	50,000	\$ 118,750	125,000/260,000		\$ 94,800	\$ 188,250
David N. Ruckert(2)	210,000	640,625				
Barry R. Greenwald			38,750/21,250		\$ 116,313	\$ 57,938
Ted des Enfants			6,250/33,750		\$ 12,813	\$ 38,438
Robert A. Connors	29,000	68,875	57,500/17,500		\$ 237,400	\$ 50,400
Roger Buelow			13,125/35,625		\$ 66,563	\$ 54,688

(1)

Based upon the closing price of the Company's Common Stock on the Nasdaq National Market on the last trading day of fiscal 2005, which was \$8.55.

(2)

Excludes option grants after Mr. Ruckert ceased being an officer. See Certain Transactions .