

SRI SURGICAL EXPRESS INC
Form DEF 14A
April 05, 2004

SCHEDULE 14A INFORMATION

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

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

Check the appropriate box:

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

SRI/Surgical Express, Inc.

(Name of Registrant as Specified In Its Certificate)

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

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No fee required.

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

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SRI/SURGICAL EXPRESS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On May 19, 2004

Dear Shareholder:

The Annual Meeting of Shareholders of SRI/Surgical Express, Inc. will be held on Wednesday, May 19, 2004, at 10:00 a.m., local time, at our corporate headquarters located at 12425 Race Track Road, Tampa, Florida 33626, for the following purposes:

1. To elect two directors to serve until the 2007 Annual Meeting of Shareholders and to hold office until their successors are duly elected and qualified;
2. To consider and act on adoption of the 2004 Stock Compensation Plan;
3. To ratify the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending on December 31, 2004; and
4. To transact other business that properly comes before the Annual Meeting or any adjournment of the meeting.

We more fully describe these items of business in the Proxy Statement accompanying this Notice.

All shareholders are cordially invited to attend the Annual Meeting in person. To ensure your representation at the Annual Meeting, we urge you to sign and return the enclosed proxy as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any shareholder attending the Annual Meeting may vote in person, even if he or she has returned a proxy.

The Board of Directors

SRI/Surgical Express, Inc.

Tampa, Florida

April 2, 2004

Important: Whether or not you plan to attend the meeting, you are requested to complete and promptly return the enclosed proxy in the envelope provided.

SRI/SURGICAL EXPRESS, INC.

PROXY STATEMENT

FOR

2004 ANNUAL MEETING OF SHAREHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

The enclosed proxy is solicited on behalf of SRI/Surgical Express, Inc. (SRI) for use at the Annual Meeting of Shareholders to be held on Wednesday, May 19, 2004 at 10:00 a.m., local time, and at any adjournment of the meeting, for the purposes set forth in this Proxy Statement and in the accompanying Notice of Annual Meeting of Shareholders. The Annual Meeting will be held at our corporate and principal executive offices located at 12425 Race Track Road, Tampa, Florida. Our telephone number at our executive offices is (813) 891-9550.

These proxy solicitation materials, together with our 2003 Annual Report to Shareholders, were mailed on or about April 2, 2004, to all shareholders entitled to vote at the Annual Meeting.

Record Date

Only shareholders of record at the close of business on March 24, 2004 (the Record Date) are entitled to notice of and to vote at the Annual Meeting. We have one class of outstanding voting securities, our Common Stock. As of the Record Date, 6,262,524 shares of our Common Stock were outstanding. For information regarding security ownership by management and by the beneficial owners of 5.0% or more of our Common Stock, see Share Ownership by Principal Shareholders and Management.

Revocability of Proxies

You may revoke any proxy given pursuant to this solicitation at any time before its use by delivering to the Secretary of SRI a written notice of revocation or a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person.

Voting

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Each shareholder is entitled to one vote for each share of Common Stock on all matters presented at the Annual Meeting. The holders of Common Stock will vote together as one group in the election of directors and other matters presented at the Annual Meeting. Shareholders do not have the right to cumulate their votes in the election of directors.

Solicitation

We will bear the entire cost of solicitation, including the preparation, assembly, printing, and mailing of this Proxy Statement. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to beneficial owners. Certain of our directors, officers, and regular employees, without additional compensation, may also solicit proxies personally or by telephone, telegram, letter or facsimile.

Quorum; Abstentions; Broker Non-Votes

A majority of the shares of our Common Stock outstanding on the Record Date must be present or represented at the Annual Meeting in order to have a quorum for the transaction of business. We treat shares that

are voted FOR, AGAINST, or WITHHELD on a matter as being present at the meeting for purposes of establishing a quorum and also as votes eligible to be cast by the shareholders present in person or represented by proxy at the Annual Meeting and entitled to vote on the subject matter with respect to the matter. We count abstentions in determining whether a quorum is present, but not in determining the number of shares voted for or against any nominee for election as a director or any proposal.

Fiscal Year End

SRI's fiscal year ends on the Sunday nearest December 31.

CORPORATE GOVERNANCE

Generally

Our policies and practices comply with existing standards of the Nasdaq Stock Market and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

The Board of Directors has determined that four of our seven directors are independent under the standards of the Nasdaq Stock Market, and all but one director (Mr. Largey) are outside directors;

The independent members of the Board of Directors meet regularly without the presence of management;

The Audit Committee and the Nominating and Governance Committee each operate under charters that clearly establish their respective roles and responsibilities;

Each member of the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee meet the appropriate tests for independence as defined in the listing standards of the Nasdaq Stock Market;

Messrs. James M. Emanuel and N. John Simmons, Jr. of the Audit Committee are designated to be audit committee financial experts, as that term is defined by the Securities and Exchange Commission;

The Audit Committee meets with management and the auditors to receive information concerning the design and operation of internal controls;

Ernst & Young LLP, our independent auditors, reports directly to the Audit Committee; and

On the recommendation of the Audit Committee, our Board of Directors adopted a code of ethics for the principal executive officers and a compliance policy to allow for confidential and anonymous reporting to a compliance officer, who reports to the Audit Committee.

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Our Board of Directors has adopted written charters for its Audit Committee and the Nominating and Governance Committee. Each charter provides that the respective committee is authorized to obtain advice and independently seek assistance from outside advisors.

We maintain a corporate governance page on our web site, which includes key information about our corporate governance initiatives, including the charters for the Audit Committee and Nominating and Governance Committee as well as our compliance policy and code of conduct. The corporate governance page can be found at <http://www.surgicalexpress.com> by clicking on Financials, then Corporate Governance.

Communications with Directors

You may communicate with any of our directors or with all directors as a group c/o Charles L. Pope, Chief Financial Officer and Secretary at SRI/Surgical Express, Inc., 12425 Race Track Road, Tampa, Florida 33626.

Communications are distributed to the Board of Directors, or to any individual director or directors as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, our Board of Directors has requested that certain items that are unrelated to their duties and responsibilities be excluded, such as spam, junk mail and mass mailings, product or service complaints, resumés and other forms of job inquiries, and business solicitations or advertisements.

In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is filtered out must be made available to any outside director upon request.

Board Meetings and Committees

Our Board of Directors held six meetings and took action by written consent two times during 2003. Each director who served as such during 2003 attended all of the meetings of the Board and the committees of the Board on which he served during that year. Our Board of Directors has a Compensation Committee, an Audit Committee, and a Nominating and Governance Committee, which it added in December 2003.

Compensation Committee. The Compensation Committee, which currently consists of Messrs. Kemberling (chair), Orsatti, Simmons, and Emanuel, reviews specific compensation plans, salaries, bonuses, and other benefits payable to our executive officers and makes recommendations to the Board of Directors regarding those matters. The Compensation Committee held two meetings during 2003.

Audit Committee. The Audit Committee currently consists of Messrs. Emanuel (chair), Kemberling, and Simmons. Among other things, the Audit Committee selects and retains (subject to our shareholders' approval) the independent auditor, sets the independent auditor's compensation, reviews and evaluates the results and scope of the audit and other services provided by our independent auditors, reviews reports from management, legal counsel, and third parties relating to legal compliance, and establishes procedures for receipt and treatment of confidential, anonymous submissions by our employees of concerns regarding accounting, auditing, and internal controls matters.

Our Board of Directors has approved a written charter for the Audit Committee, which the committee reviews annually and updates as appropriate. During 2003, the Audit Committee held five meetings.

Nominating and Governance Committee. Our Nominating and Governance Committee, which consists of Messrs. Simmons (chair), Orsatti, Kemberling, and Emanuel, provides assistance to the Board of Directors in (a) identifying and recommending qualified Board nominees; (b) evaluating the performance and effectiveness of the Board and its committees; and (c) evaluating and recommending corporate governance guidelines and practices. The Committee may, in its sole discretion, engage director search firms and may consult with outside advisors to assist it in carrying out its duties to SRI. The Committee has the sole authority to approve the fees and other retention terms with respect to any such firms.

To fulfill its responsibility to recruit and recommend to the full Board of Directors nominees for election as directors, the Nominating and Governance Committee reviews the composition of the full Board to determine the qualifications and areas of expertise needed to further enhance the composition of the Board and works with management in attracting candidates with those qualifications. Appropriate criteria for Board membership include the following:

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Members of the Board should be individuals of high integrity and independence and substantial accomplishments.

Members of the Board should have demonstrated leadership ability and the ability to exercise sound business judgment.

The background and experience of members of the Board should be in areas important to our operation such as business, finance, and the healthcare industry.

The Committee considers candidates for director suggested by our shareholders, provided that the recommendations are made in accordance with the procedures required under applicable law and described in this Proxy Statement under the heading Requirements to Submit Shareholder Proposals and Director Nominations. Shareholder nominations that comply with these procedures and that meet the criteria outlined above receive the same consideration that the Committee's nominees receive.

Compensation of Directors

Directors who are not our current employees receive \$1,000 per Board or Committee meeting attended and a quarterly retainer of \$6,000 under our Non-Employee Directors' Compensation Plan. Messrs. Boosales and Peterson waived these fees for 2003 in connection with their consulting agreements that are described below. The fees earned by non-employee directors in 2003 are described in the table below.

2003 Compensation of Non-Employee Directors

2003 Retainer and Meeting Fees

Director	Annual	Board	Committee	Total
	Board Retainer	Meeting Fees*	Meeting Fees	
Mr. Emanuel	\$ 24,000	\$ 4,000	\$ 7,000	\$ 35,000
Mr. Kemberling	24,000	\$ 4,000	\$ 7,000	\$ 35,000
Mr. Simmons	24,000	\$ 4,000	\$ 7,000	\$ 35,000

* The Board held two telephonic meetings for which no fees were paid.

Messrs. Boosales and Peterson each served as consultants to us during 2003 pursuant to Consulting Agreements, under which they were paid \$200,000 each for their consulting services during 2003. These Consulting Agreements expired at the end of 2003.

Indemnification

We indemnify our directors and elected officers to the fullest extent permitted by law so that they will be free from undue concern about personal liability in connection with their service to us. This is required under our Bylaws, and we have also signed agreements with each of those individuals contractually obligating us to provide this indemnification to them.

Securities Ownership of Directors, Officers, and Principal Shareholders

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of February 27, 2004, with respect to: (i) each of our directors and the executive officers named in the Summary Compensation Table below, (ii) all of our directors and named officers as of December 31, 2003, as a group, and (iii) each person known by us to own beneficially more than 5% of the Common Stock.

Each of the shareholders listed below has sole or shared voting and investment power over the shares beneficially owned. The number and percentage of shares beneficially owned is determined under rules of the Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares for which the individual has sole or shared voting power or investment power and also any shares as to which the individual has the right to acquire within 60 days of February 27, 2004, through the exercise of any stock option or other right. A total of 6,262,524 shares of SRI's Common Stock were issued and outstanding as of February 27, 2004.

Beneficial Owner ⁽¹⁾	Class of Stock	Shares	Percentage
		Beneficially Owned	Beneficially Owned
Wayne R. Peterson ⁽²⁾	Common	879,200	14.0%
Richard T. Isel ⁽³⁾	Common	820,829	13.1%
James T. Boosales ⁽⁴⁾	Common	812,500	13.0%
Lee R. Kemberling ⁽⁵⁾	Common	380,679	6.1%
James M. Emanuel ⁽⁶⁾	Common	52,167	1.0%
Joseph A. Largey ⁽⁷⁾	Common	30,000	*
N. John Simmons, Jr. ⁽⁸⁾	Common	18,667	*
Charles T. Orsatti ⁽⁹⁾	Common	- 0-	*
Charles L. Pope ⁽¹⁰⁾	Common	30,000	*
T. Rowe Price Associates, Inc. ⁽¹¹⁾	Common	570,800	9.1%
Paradigm Capital Management, Inc.	Common	472,104	7.5%
F&C Management, Ltd.	Common	456,800	7.3%
Heartland Advisors, Inc.	Common	448,900	7.2%
Gary L. Heiman and Standard Textile Co., Inc.	Common	349,667	5.6%
All directors and officers as a group (8 persons) ⁽¹²⁾	Common	2,203,213	34.3%

* Less than 1%

⁽¹⁾ The business address for Wayne R. Peterson is 2779 Camden Road, Clearwater, Florida 33759. The business address for Richard T. Isel is 3035 Turtle Brooke, Clearwater, Florida 33761. The business address for James T. Boosales is 2145 Glenbrook Close, Palm Harbor, Florida 34683. The business address for Lee R. Kemberling is 11500 47th Street North, Clearwater, Florida 34622. The business address for James M. Emanuel is 120 14th Street, Belleair Beach, Florida 33786. The business address for N. John Simmons, Jr. is 339 South Plant Avenue, Tampa, Florida 33606. The business address for Charles T. Orsatti is 600 Cleveland Street, Suite 1100, Clearwater, Florida 33755. The business address for Joseph A. Largey and Charles L. Pope is 12425 Race Track Road, Tampa, Florida 33626. The business address for Gary L. Heiman is One Knollcrest Drive, Cincinnati, Ohio 45237. The business address for Paradigm Capital Management, Inc. is Nine Elk Street, Albany, New York 12207. The business address for American Century Investment Management, Inc. is 4500 Main Street, Kansas City, Missouri 64141. The business address for T. Rowe Price Associates, Inc. is 100 East Pratt Street, Baltimore, Maryland 21202. The business address for F&C Management, Ltd. is Exchange House, Primrose Street, London EC2A 2NY, England.

⁽²⁾ Includes 71,000 shares of Common Stock owned by the Wayne R. Peterson Grantor Retained Annuity Trust, as to which Mr. Peterson has sole voting and dispositive power as trustee, and 71,000 shares of Common Stock owned by the Theresa A. Peterson Grantor Retained Annuity Trust, as to which Mrs. Peterson, Mr. Peterson's wife, has sole voting and dispositive power as trustee. Also includes 737,200 shares of Common Stock owned by the Peterson Partners, Ltd., a Colorado limited partnership of which Peterson Holdings, Inc., a Colorado corporation, is the general partner. Mr. and Mrs. Peterson jointly own all of the issued and outstanding voting stock of Peterson Holdings, Inc.

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- (3) Includes 630,829 shares of Common Stock owned by the Isel Family Limited Partnership, a Colorado limited partnership of which Isel Holdings, Inc., a Colorado corporation, is the general partner. Mr. Isel and his wife, Marcy, jointly own all of the issued and outstanding voting stock of Isel Holdings, Inc.
- (4) Includes 800,000 shares of Common Stock owned by the Boosales Family Limited Partnership, a Colorado limited partnership of which Boosales Holdings, Inc., a Colorado corporation, is the general partner. Mr. Boosales and his wife, Bonny, jointly own all of the issued and outstanding voting stock of Boosales Holdings, Inc. Excludes 12,000 shares of Common Stock issuable on exercise of stock options that are not exercisable within 60 days.
- (5) Includes 34,667 shares of Common Stock issuable on exercise of stock options that are currently exercisable or will become exercisable within 60 days. Excludes 3,333 shares of Common Stock issuable on exercise of stock options that are not exercisable within 60 days.
- (6) Includes 42,167 shares of Common Stock issuable on exercise of stock options that are currently exercisable or will become exercisable within 60 days. Excludes 11,333 shares of Common Stock issuable on exercise of stock options that are not exercisable within 60 days.
- (7) Includes 30,000 shares of Common Stock issuable on exercise of stock options that are currently exercisable or will become exercisable within 60 days. Excludes 120,000 shares of Common Stock issuable on exercise of stock options that are not exercisable within 60 days.
- (8) Includes 18,667 shares of Common Stock issuable on exercise of stock options that are currently exercisable or will become exercisable within 60 days. Excludes 7,333 shares of Common Stock issuable on exercise of stock options that are not exercisable within 60 days.
- (9) Excludes 12,000 shares of Common Stock issuable on exercise of stock options that are not exercisable within 60 days.
- (10) Includes 30,000 shares of Common Stock issuable on exercise of stock options that are currently exercisable or will become exercisable within 60 days. Excludes 45,000 shares of Common Stock issuable on exercise of stock options that are not exercisable within 60 days.
- (11) These securities are owned by various individuals and institutional investors including the T. Rowe Price Small Cap Value Fund (which owns 400,000 shares, representing 6.4% of the shares outstanding), which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities and Exchange Act of 1934, Price Associates is deemed to beneficially own these securities, although Price Associates disclaims that it beneficially owns those securities.
- (12) Includes 42,167 shares of Common Stock issuable upon the exercise of outstanding stock options held by James M. Emanuel; 34,667 shares of Common Stock issuable on exercise of stock options held by Lee R. Kemberling; 18,667 shares of Common Stock issuable on exercise of stock options held by N. John Simmons, Jr.; 30,000 shares of Common Stock issuable on exercise of stock options held by Joseph A. Largey; and 30,000 shares of Common Stock issuable on exercise of stock options held by Charles L. Pope.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act (Section 16(a)) requires our officers and directors and persons who own ten percent or more of a registered class of our equity securities to file reports of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the SEC and the National Association of Securities Dealers, Inc. Those officers, directors and ten percent or more shareholders are also required by SEC rules to furnish us with copies of all such forms that they file.

Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons that no Forms 5 were required for those persons, we believe that during 2003, all Section 16(a) filing requirements applicable to our officers, directors, and ten-percent or more shareholders were satisfied.

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee is currently composed of Messrs. Orsatti, Kemberling, Simmons, and Emanuel. No member of the Compensation Committee is or was formerly an officer or an employee of SRI. No interlocking relationship exists between our Board of Directors or Compensation Committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Nominees for Election at the Annual Meeting

Members of our Board of Directors serve staggered three-year terms expiring at the third annual meeting of shareholders after their election. At the 2004 Annual Meeting, we will be electing two directors to serve a term of three years through our 2007 Annual Meeting. Our Board of Directors has authorized the nomination of the persons as candidates named in this Proxy Statement. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the two nominees named below, both of whom are presently directors. In the event that any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the current Board of Directors to fill the vacancy. We do not expect that any nominee will be unable or will decline to serve as a director. The term of office of each person elected as a director will continue until a successor has been elected and qualified.

Required Vote

The two nominees receiving the highest number of affirmative votes of the shares of Common Stock present or represented and entitled to be voted for them shall be elected as directors. Votes withheld from any director are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but have no further legal effect under Florida law.

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>New Term Expires</u>
Wayne R. Peterson	52	Private Investor	2007
N. John Simmons, Jr.	48	President, Quantum Capital Partners, Inc.	2007

Wayne R. Peterson served as our Executive Vice President from 1994 and our Chief Operating Officer from May 2001, in each case until his retirement on December 31, 2002. Mr. Peterson has been one of our directors since 1994 and served as a consultant to us through December 31, 2003. In 1991, Mr. Peterson co-founded our predecessor, Amsco Sterile Recoveries, Inc., and served as our Vice President until we acquired Amsco Sterile Recoveries in 1994. Before joining Amsco Sterile Recoveries, Mr. Peterson was President of Agora Development, Inc., a real estate development company that from 1987 to 1991 developed projects totaling 2,000,000 square feet in four states (California, Nevada, Arizona, and Illinois) for a total combined value of \$278 million.

N. John Simmons, Jr. has been one of our directors since February 2001 and Chairman of the Board since August 2002. Since December 1998, Mr. Simmons has been President of Quantum Capital Partners, a privately held venture capital firm. From 1995 to 1998, he was Vice President and Controller for Eckerd Corporation. From 1993 to 1995, he served as Chief Financial Officer of Checkers Drive-In Restaurants. Between 1976 and 1993, Mr. Simmons was a partner with KPMG Peat Marwick, serving a number of privately and publicly held companies in the Tampa Bay area.

The Board of Directors Unanimously Recommends a Vote For the Nominees Listed Above.

Directors with Terms Continuing After the Annual Meeting

On February 10, 2004, our Nominating and Governance Committee recommended for election and our Board of Directors unanimously elected Joseph A. Largey as a director for a term ending in 2005 and Charles T. Orsatti as a director for a term ending in 2006.

The following directors will continue to serve after the Annual Meeting for terms that expire in 2005 or 2006, as specified:

Name	Age	Principal Occupation	Term Expires
James M. Emanuel	55	Private Investor	2005
Joseph A. Largey	57	President and Chief Executive Officer of SRI/Surgical Express, Inc.	2005
James T. Boosales	60	Private Investor	2006
Lee R. Kemberling	78	President, Kemco Systems, Inc.	2006
Charles T. Orsatti	59	Private Equity Investor	2006

James M. Emanuel has been one of our directors since May 2, 1996. Between January 1984 and June 1997, he served as the Chief Financial Officer of Lincare, Inc., a national provider of respiratory therapy services for patients with pulmonary disorders. He also served as the Chief Financial Officer of Lincare Holdings, Inc. between November 1990 and June 1997. Mr. Emanuel also served as a director of Lincare, Inc. and Lincare Holdings, Inc. from November 1990 to June 1997. Mr. Emanuel has engaged in consulting and private investment activities since his retirement from Lincare Holdings, Inc. in June 1997.

Joseph A. Largey has been one of our directors since February 10, 2004, and our President and Chief Executive Officer since December 1, 2002. Before joining us, Mr. Largey was President and Chief Executive Officer of The Spectranetics Corporation, an intervention cardiology company from 1997 to 2002. Mr. Largey also served for 12 years at Picker International, Inc., a major healthcare distributor. He began his career with 17 years at Johnson & Johnson, where he was primarily responsible for marketing supplies and equipment to hospital operating rooms.

James T. Boosales served as our Executive Vice President and Chief Financial Officer from 1994 until August 2002, and as our Executive Vice President until he retired on December 31, 2002. He has been one of our directors since our inception in 1994, and served as a consultant to us from the date of his retirement through December 31, 2003. He served as President, International, of Fisher-Price, Inc., a \$200 million division of this toy and juvenile products company, from 1990 through 1993. Before joining Fisher-Price, Inc., Mr. Boosales served in several senior executive capacities with General Mills, Inc., including President, International, for Kenner Parker Toys, Inc./Tonka Corp. from 1985 to 1989, during and after its spin-off as a public company, and President of Foot-Joy, Inc. from 1982 to 1985. Mr. Boosales now engages in private investment activities.

Lee R. Kemberling, an initial investor in SRI, has been one of our directors since our inception in 1994. Mr. Kemberling is the founder, and since 1969, has been sole shareholder and President of Kemco Systems, Inc., a developer and manufacturer of commercial and industrial wastewater heat recovery systems, including systems used in our operations.

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Charles T. Orsatti has been one of our directors since February 10, 2004. Most recently until 1995, he served as Chairman and Chief Executive Officer of Fairfield Medical Products Corp./Herman Miller, a manufacturer of unique critical care medical equipment. From 1986 to 1990 he served as President of Coloplast A/S Denmark, a manufacturer of single-use medical products and then as Chief Operating Officer and President of two divisions of British Oxygen Corporation, serving the home health industry. Mr. Orsatti began his career with nine years at Air Products and Chemicals, Inc., a producer of medical gases, anesthesia and respiratory equipment, and four years at a division of Johnson & Johnson. He now engages in private investment activities and also serves on the Board of Directors of dj Orthopedics, LLC, an orthopedic medical device company.

SEC Settlement

The Securities and Exchange Commission approved a settlement in July 2003 arising from its investigation of our accounting for transactions underlying a restatement of our financial results for the third quarter of 2001. SRI, James T. Boosales, and Wayne R. Peterson consented to an administrative cease and desist order regarding books and records, internal controls, and reporting provisions of the Securities Exchange Act of 1934. The Commission did not assess penalties or make any finding of fraud by SRI or the individuals. Messrs. Boosales and Peterson retired as officers in December 2002 and serve on our Board of Directors. Mr. Peterson is a nominee for reelection to our Board of Directors.

PROPOSAL NO. 2

APPROVAL FOR ADOPTION OF 2004 STOCK COMPENSATION PLAN

In March 2004, the Board of Directors adopted the SRI/Surgical Express, Inc. 2004 Stock Compensation Plan (the 2004 Plan), subject to shareholder approval at the Annual Meeting. The 2004 Plan provides for the granting of stock options or shares of restricted stock to employees and non-employee directors. The stock options will be either incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Tax Code), or nonqualified stock options. The shareholders are being requested to approve the 2004 Plan at the Annual Meeting.

SRI believes that stock options and restricted stock awards motivate high levels of performance and are an effective way to recognize employee and non-employee director contributions to SRI's success. Moreover, stock options and restricted stock grants align the interests of the employees and non-employee directors with the interests of the shareholders, because when SRI performs well, employees and non-employee directors are rewarded along with SRI's shareholders. The Board of Directors believes that the ability to grant stock options and restricted stock will be important to SRI's future success by allowing it to remain competitive in attracting and retaining key personnel.

Required Vote; Recommendation of the Board of Directors

Affirmative votes constituting a majority of the shares present or represented by proxy at the Annual Meeting will be required to approve the 2004 Plan.

The Board of Directors Unanimously Recommends a Vote For This Proposal.

Summary of the 2004 Stock Compensation Plan

Certain features of the 2004 Plan are outlined below. The full text of the 2004 Plan was filed electronically with the SEC with this Proxy Statement, but is not included in the printed version of this Proxy Statement. If you have more specific questions, you should refer to the full text of the 2004 Plan. The following description is qualified in its entirety by reference to the full text of the 2004 Plan.

Purposes. The purposes of the 2004 Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to SRI's employees and non-employee directors, and to promote the success of SRI's business.

Shares Available. The aggregate number of shares available and reserved for restricted stock grants and issuance upon exercise of stock options under the 2004 Plan is Five Hundred Thousand (500,000) shares.

Administration. The 2004 Plan is administered by an Administrative Committee. The Board of Directors is currently acting as the Administrative Committee, but the Board of Directors may choose to delegate

administration to a committee of two or more directors. Grants to executive officers require a prior approval or recommendation of the Company's Compensation Committee. The Board of Directors must always act as the Administrative Committee with respect to all grants to non-employee directors. The Administrative Committee will determine the terms of each stock option, including the exercise price, exercisability, and the number of shares for each option granted to participants in the 2004 Plan. The Administrative Committee will also determine the terms of each restricted stock grant, including the restriction period, the conditions for removal of restrictions, and the number of shares granted to each participant.

Eligibility. Non-employee directors and full-time, salaried employees of SRI may be granted options and/or restricted stock. Options granted to employees may be incentive stock options or nonqualified stock options, but options granted to non-employee directors may only be nonqualified stock options. Any participant in the 2004 Plan may receive more than one grant. The Administrative Committee selects the recipients of options or restricted stock. When making grants, the Administrative Committee considers the participant's duties and responsibilities, the value of his or her services, his or her potential contribution to SRI's success, the anticipated number of years of future service, and other relevant factors.

Terms and Conditions of Options. In order for a participant to receive a stock option, he or she must enter into a written stock option agreement with SRI. The additional terms and conditions of each stock option are contained in the stock option agreement. The common terms and conditions of the stock options are:

(a) *Exercise Price.* The Administrative Committee sets the exercise price of each stock option on the grant date. The exercise price of an incentive stock option cannot be less than the fair market value of SRI's common stock on the grant date. As long as SRI's common stock is traded on the Nasdaq National Market, the fair market value is the average of the high and low prices of the common stock as reported by Nasdaq on the grant date.

(b) *Option Exercise.* Each stock option agreement specifies the expiration date of the option and the dates on which the option becomes exercisable. A participant exercises an option by giving to SRI written notice and full payment for the number of shares he or she is purchasing.

(c) *Termination of Employment or Service as a Director.* Unless the stock option agreement provides otherwise, if a participant's employment or service as a director ends for any reason other than disability or death, that participant may exercise his or her option for up to 90 days after the employment or service ends, but only to the extent that it could be exercised on the date employment or service ended.

(d) *Disability.* If a participant's employment or service as a director ends because of permanent and total disability as defined in Section 22(e)(3) of the Tax Code, that participant may still exercise his or her option for up to one year after the date employment or service ended, but only to the extent that it could be exercised on the date employment or service ended.

(e) *Death.* If a participant dies, his or her estate or beneficiary may exercise the option during the year following death, but only to the extent that it could be exercised on the date of death.

(f) *Termination of Options.* Options expire ten years after the grant date. No option may ever be exercised after it expires.

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(g) *Nontransferability of Options.* Unless the stock option agreement provides otherwise, an option is not transferable by the participant, other than by will or the laws of descent and distribution. During the participant's lifetime, an option is exercisable only by the participant. In the event of the participant's death, his or her options may be exercised by a person who acquires the right to exercise the option by bequest or inheritance.

(h) *Adjustments Because of Capitalization Changes.* If there are any stock splits, reverse stock splits, stock dividends, mergers, recapitalizations or other changes in SRI's capital structure, the Board of Directors will make appropriate adjustments in exercise prices and the number and class of shares subject to outstanding options.

(i) *Other Provisions.* The Administrative Committee may include additional terms and conditions in a stock option agreement as long as they do not conflict with the 2004 Plan. When an option terminates before it has been fully exercised, any option shares which were not purchased under that option will become available again for future grants under the 2004 Plan.

Terms and Conditions of Restricted Stock. In order for a participant to receive shares of restricted stock, he or she must enter into a written stock restriction agreement with SRI. The additional terms and conditions of each restricted stock grant are contained in the stock restriction agreement. The common terms and conditions of restricted stock grants are:

(a) *Payment for Restricted Stock.* Other than rendering services to SRI and satisfying any conditions set by the Administrative Committee, participants are not required to pay SRI for grants of restricted stock.

(b) *Restrictions.* Restricted stock is subject to certain periods of restriction and any other restrictions set by the Administrative Committee at the time of the grant. These other restrictions may include performance criteria, forfeiture provisions, additional vesting conditions, and restrictions under applicable federal and state securities laws.

(c) *Restrictive Legends on Certificates.* The certificates representing shares of restricted stock may bear legends describing the restrictions on transfer of the shares.

(d) *Removal of Restrictions.* After the applicable period of restriction has ended and all other restrictions have been satisfied, the shares of restricted stock will become freely transferable, and any restrictive legends may be removed.

(e) *Voting Rights and Dividends.* With respect to his or her shares of restricted stock, the participant will receive full voting rights and any dividends or distributions paid.

(f) *Termination of Employment or Service as a Director.* Unless the stock restriction agreement provides otherwise, if a participant's employment or service as a director ends for any reason other than disability or death, all of that participant's shares which are still subject to restrictions will be forfeited.

(g) *Disability.* If a participant's employment or service as a director ends because of permanent and total disability as defined in Section 22(e)(3) of the Tax Code, that participant's shares of restricted stock will not be forfeited, but may continue to vest according to their original terms.

(h) *Death.* If a participant dies, his or her restricted stock will become fully vested as of the date of death.

(i) *Nontransferability of Restricted Stock.* Unless the stock restriction agreement provides otherwise, restricted stock is not transferable by the participant, other than by will or the laws of descent and distribution.

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(j) *Other Provisions.* The Administrative Committee may include additional terms and conditions in a stock restriction agreement as long as they do not conflict with the 2004 Plan. When shares of restricted stock are forfeited, they will become available again for future grants under the 2004 Plan.

Change in Control of SRI. Stock options and shares of restricted stock will become fully vested if certain Change in Control transactions occur. If a Change in Control occurs, the Administrative Committee may elect to cancel participants' options and pay participants holding options the difference between the exercise price and the fair market value of the shares issuable on exercise of their stock options.

Amendment of the 2004 Plan. The Board of Directors may amend, suspend or terminate the 2004 Plan. SRI must obtain shareholder approval for any amendment that (i) materially increases the benefits, (ii) materially modifies the eligibility requirements for participation, (iii) reduces the minimum exercise price per share of previously granted stock options, (iv) increases the number of shares issuable under the 2004 Plan, or (v) changes the requirements for amendment of the 2004 Plan. Any amendment or termination of the 2004 Plan will not affect outstanding options unless the participant and SRI agree otherwise in writing.

Termination of the 2004 Plan. The 2004 Plan will terminate in March 2014. The termination of the 2004 Plan will not affect outstanding options unless the participant and SRI agree otherwise in writing.

Federal Tax Considerations

Below is a summary of the effect of federal income taxation upon SRI and participants with respect to stock options and restricted stock, based upon the current Tax Code. This is not necessarily a complete discussion of all potential tax considerations, and does not address the tax consequences of a participant's death or the tax laws of any municipality, state or foreign country.

Incentive Stock Options. Some stock options granted under the 2004 Plan may be incentive stock options, as defined in Section 422 of the Tax Code. Incentive stock options may not be granted to non-employee directors. Certain federal tax consequences of incentive stock options are:

The participant does not realize any taxable ordinary income on the date of grant.

SRI is not entitled to any tax deduction on the date of grant.

If the participant holds the shares for at least one year following the exercise of the option and at least two years from the date of grant, any gain or loss will be treated as long-term capital gain or loss.

If the participant does not hold the shares acquired on exercise for the one and two year periods described above, then

the participant will recognize ordinary income at the time of sale equal to the difference between the exercise price and the lower of (i) the fair market value of the shares at the date of the option exercise or (ii) the sale price of the shares;

SRI will be entitled to a tax deduction equal to the participant's recognized ordinary income; and

any gain or loss recognized in excess of the amount treated as ordinary income will be long-term or short-term capital gain or loss, depending on the holding period.

different rules for measuring ordinary income may apply if the participant is also an officer, director, or 10% shareholder of SRI.

Nonqualified Stock options. Any option that does not qualify as an incentive stock option is a nonqualified stock option. Certain federal tax consequences of nonqualified stock options are:

The participant does not realize any taxable ordinary income on the date of grant.

SRI is not entitled to a tax deduction on the date of grant.

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When the participant exercises the option, he or she will recognize ordinary income in an amount equal to the difference between the option exercise price and the fair market value of the shares on the date of exercise.

Any taxable ordinary income recognized by the participant will be subject to tax withholding by SRI.

SRI will be entitled to a tax deduction in an amount equal to the participant's taxable ordinary income with respect to the exercise.

Upon sale of the shares by the participant, any difference between the sales price and the participant's purchase price, to the extent not previously recognized as taxable income, will be treated as long-term or short-term capital gain or loss, depending on the holding period.

Restricted Stock. Under the 2004 Plan, SRI may also grant shares of restricted stock. Certain federal tax consequences of restricted stock are:

The participant will realize taxable ordinary income, subject to tax withholding by SRI, on the date the restriction is removed from the stock.

The amount of the participant's taxable ordinary income is the difference between the fair market value of the stock on the date awarded and the date the restriction is removed.

Under certain circumstances, the participant may choose to realize the taxable ordinary income in the year in which the restricted stock is granted.

SRI will be entitled to a tax deduction at the same time and in the same amount as is realized as ordinary income by the participant.

The Board of Directors Unanimously Recommends a Vote For This Proposal.

PROPOSAL NO. 3

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee of our Board of Directors appointed the firm of Ernst & Young LLP to audit our financial statements for the fiscal year ending December 31, 2004. Ernst & Young LLP has audited our financial statements since 1999. A representative of Ernst & Young LLP is expected to be present at the Annual Meeting, will have the opportunity to make a statement, and is expected to be available to respond to appropriate questions.

Fees Paid to Ernst & Young LLP

The following table shows fees paid or accrued by us for the audit and other services provided by Ernst & Young LLP for fiscal year 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Audit Fees ⁽¹⁾	\$ 152,895	\$ 110,000
Audit-Related Fees ⁽²⁾	10,150	16,366
Tax Services ⁽³⁾	42,850	43,909
All Other Fees		
Total	<u>\$ 180,000</u>	<u>\$ 170,275</u>

-
- (1) Audit Fees consist of fees billed or accrued for professional services rendered by Ernst & Young LLP to audit our financial statements and review our interim financial statements included in our quarterly reports.
 - (2) Audit-Related Fees consist of fees billed or accrued for professional services rendered by Ernst & Young LLP that are reasonably related to the performance of the audit or review and are not included in Audit Fees . These services include consultations related to the Sarbanes-Oxley Act and financial accounting and reporting standards.
 - (3) Tax Services consist of fees billed for professional services rendered for tax compliance services.

The Audit Committee considered whether the provision of services is compatible with maintaining the independence of Ernst & Young, and determined that the services were compatible with that independence. The Audit Committee approves all non-audit services, including tax services.

Required Vote; Recommendation of the Board of Directors

The Audit Committee of the Board of Directors has conditioned its appointment of our independent auditors upon the receipt of the affirmative vote of a majority of the shares represented, in person or by proxy, and voting at the Annual Meeting, which shares voting affirmatively also constitute at least a majority of the required quorum. In the event that the shareholders do not approve the selection of Ernst & Young LLP, the appointment of the independent auditors will be reconsidered by the Audit Committee of the Board of Directors.

The Board of Directors Unanimously Recommends a Vote For This Proposal.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of SRI/Surgical Express, Inc. reviews its financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls.

In this context, we have met and held discussions with management and the independent auditors. Management represented to us that SRI's financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the financial statements with management and the independent auditors. We discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees).

In addition, we received from the independent auditors the written disclosures and the letter relating to the independent auditors' independence, as required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and we discussed with the independent auditors the auditors' independence from SRI and its management.

We discussed with SRI's independent auditors the overall scope and plan for their audit. We meet with the independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of SRI's internal controls, and the overall quality of SRI's financial reporting.

In reliance on the reviews and discussions referred to above, we recommended to the Board of Directors, and the Board has approved, including the audited financial statements be included in SRI's Annual Report on Form 10-K for the year ended December 31, 2003, for filing with the Securities and Exchange Commission.

The Audit Committee and the Board also have recommended, subject to shareholder approval, the selection of SRI's independent auditors for the year ended December 31, 2004 - see Proposal No. 3.

Submitted by the Audit Committee of the

Board of Directors:

James M. Emanuel (chair)

Lee R. Kemberling

N. John Simmons, Jr.

EXECUTIVE OFFICER COMPENSATION
Executive Compensation

The following table sets forth certain information concerning compensation paid to or earned by our Chairman and Chief Executive Officer and each of our other executive officers (the "Named Officers") for the years ended December 31, 2003, 2002, and 2001:

Summary Compensation Table**Annual Compensation**

<u>Name and Principal Positions</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other Annual Compensation</u>
Joseph A. Largey, President and Chief Executive Officer ⁽¹⁾	2003	\$ 300,000	\$ 50,000	\$ 159,000
	2002	23,077		
	2001			
Charles L. Pope, Chief Financial Officer ⁽²⁾	2003	\$ 192,308	\$ 32,000	
	2002	131,250	75,000	4,065
	2001			

⁽¹⁾ Mr. Largey became our Chief Executive Officer in December 2002. During 2003, the Company paid approximately \$159,000 to Mr. Largey for relocation costs.

⁽²⁾ Mr. Pope joined us in April 2002, and became our Chief Financial Officer in August 2002.

Employment Agreements

We have employment agreements with our two Named Officers that provide for annual salary as follows:

<u>Name</u>	<u>Salary</u>
Joseph A. Largey	\$ 300,000
Charles L. Pope	\$ 200,000

In addition, these executives participate in our management incentive bonus plan. Either party may terminate these agreements without cause at any time, subject to certain notice requirements. Mr. Largey's agreement provides for payment of one year's base salary and a pro-rated bonus as severance if he is terminated without cause. Mr. Largey is prohibited from competing with us during the two-year period following termination of his employment. Mr. Pope's agreement provides for him to receive a severance compensation benefit equal to (a) his annual salary for 180 days for an involuntary termination before a change of control and (b) two times his annual cash compensation (payable in a lump sum) and a pro-rated bonus for an involuntary or constructive termination of employment following a change of control.

Option Grants in Last Fiscal Year

We did not grant options to our Named Officers during 2003.

Fiscal Year End Option Values

The following table sets forth the aggregate value of exercised and unexercised options at December 31, 2003, for each Named Officer.

Name	Options Exercised		Number of Unexercised Options at Fiscal Year End		Value of Unexercised In-the- Money Options at Fiscal Year End ⁽¹⁾	
	Shares Acquired on	Value Realized on	Unexercisable	Exercisable	Unexercisable	Exercisable
	Exercise	Exercise				
Joseph A. Largey			150,000	30,000		
Charles L. Pope			75,000	15,000		

⁽¹⁾ Our closing price as of December 31, 2003 was \$6.23. There were no in-the-money options as of December 31, 2003 for our Named Officers.

Equity Compensation Plan Information

The following table sets forth certain information relating to our equity compensation plans as of December 31, 2003:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
<i>Equity compensation plans approved by security holders:</i>			
1995 Stock Option Plan	392,500	\$ 11.24	62,300
1996 Non-Employee Director			
Stock Option Plan	141,500	13.01	58,500
1998 Stock Option Plan	430,300	8.92	152,284
Bertram T. Martin, Jr., Plan	66,000	4.43	
<i>Equity compensation plans not approved by security holders:</i>			
None			
Total	1,030,300		273,084

CERTAIN TRANSACTIONS

All transactions between SRI and our officers, directors, principal shareholders, and their affiliates are approved by a majority of the Board of Directors, including a majority of the independent and disinterested outside directors on the Board of Directors, and will be on terms no less favorable to us than could be obtained from unaffiliated third parties.

**REPORT OF THE COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS**

The Compensation Committee of the Board of Directors has furnished the following report on the executive compensation program of SRI/Surgical Express, Inc. Our Committee, which consists of the four independent directors listed at the end of this report, reviews and establishes specific compensation plans, salaries, option grants, and other benefits payable to our executive officers. Following our review and approval, we submit all issues pertaining to executive compensation to the entire Board of Directors for its review and approval.

Our primary objective with respect to executive compensation is to establish programs that attract and retain executive officers and align their compensation with our overall business strategies, values, and performance. For executive officers and key managers, SRI grants stock options as a component of total consideration to closely align their interests with the shareholders' long-term interests. Further, in evaluating annual compensation of executive and key managers, we place a relatively heavy emphasis on stock options as a percentage of total compensation, consistent with its philosophy that stock incentives more closely align the interests of company managers with the long-term interests of shareholders.

The components of SRI's total compensation program for executive officers have been:

1. *Salary:* We intend base salary paid to executives to be competitive with that paid to comparable executives and to reflect consideration of an officer's experience, business judgment, and role in developing and implementing our overall business strategy. We determine salaries based on qualitative and subjective factors, and do not apply a specific formula to determine the weight of each factor.
2. *Bonuses:* Bonuses for executive officers are intended to reflect our belief that a significant portion of annual compensation of the executive should be contingent on the performance of SRI, as well as the individual's contribution. Bonuses are paid on an annual basis and are based on both objective and subjective factors that the Committee determines each year.
3. *Long-Term Stock Incentives:* Our 1995 Stock Option Plan and 1998 Stock Option Plan provide for the grant to employees of incentive or nonqualified stock options. Grants to executives are designed to align a significant portion of the executive compensation package with the long-term interests of our shareholders by providing an incentive that focuses attention on managing SRI from the perspective of an owner with an equity stake in the business.

We generally limit grants of stock options to our senior executives and other key employees and managers who are in a position to contribute substantially to our growth and success. We grant incentive stock options and nonqualified stock options for terms up to ten years and design them to reward exceptional performance with a long-term benefit, facilitate stock ownership, and deter recruitment of our key personnel by competitors and others. Vesting requirements encourage loyalty.

Since its inception, SRI's executive officers have held stock ownership or options that closely align their interests with its shareholders' long-term interests, consistent with the compensation philosophies set forth above. We expect this close alignment to contribute to a renewal of SRI's growth and profitability.

Submitted by the Compensation Committee of the Board of Directors,

Lee R. Kemberling (chair)

James M. Emanuel

Charles T. Orsatti

N. John Simmons, Jr.

COMPANY STOCK PRICE PERFORMANCE GRAPH

The following graph shows a comparison of our cumulative total shareholder return, the Nasdaq Stock Market (U.S.) Index, and the Nasdaq Health Index for the period since our Common Stock began trading on July 18, 1996. This graph assumes that \$100 was invested on July 18, 1996, in our Common Stock and in the other indices. Note that historic stock price performance does not necessarily indicate future stock price performance.

REQUIREMENTS TO SUBMIT PROXY PROPOSALS

AND DIRECTOR NOMINATIONS

Under our bylaws and applicable rules of the Securities and Exchange Commission, shareholders desiring to have proposals considered for inclusion in the proxy statement and form of proxy for the 2005 Annual Meeting of Shareholders must furnish the proposals to us before December 3, 2004.

Our Bylaws provide certain procedures that a shareholder must follow to nominate persons for election as directors or to introduce an item of business at an Annual Meeting of Shareholders. These procedures provide that nominations for director nominees and/or an item of business to be introduced at an Annual Meeting of Shareholders must be submitted in writing to the Secretary of the Company at our principal executive offices. We must receive the notice of your intention to introduce a nomination or to propose an item of business at our 2005 Annual Meeting no later than December 3, 2004. If we do not receive notice by that date, or if we meet other requirements of the SEC rules, the persons named as proxies in the proxy materials relating to that meeting will use their discretion in voting the proxies when these matters are raised at the meeting.

Any nomination of a director must contain the following information about the nominee:

name, age, and business and residence addresses;

principal occupation or employment;

the number of shares of common stock beneficially owned by the nominee;

the information that would be required under the rules of the SEC in a Proxy Statement soliciting proxies for the election of such nominee as a director; and

a signed consent of the nominee to serve as a director of the Company, if elected.

In addition, the shareholder giving notice must provide the following information: (a) the shareholder's name and address, as they appear on the Company's books and (b) the class and number of shares of stock of the Company that are beneficially owned by the shareholder.

Notice of a proposed item of business must include:

a brief description of the substance of, and the reasons for conducting, such business at the Annual Meeting;

the shareholder's name and address as they appear on our records;

the number of shares of common stock beneficially owned by the shareholder (with supporting documentation where appropriate);

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any material interest of the shareholder in such business; and the same information required above with respect to any other shareholder that to the knowledge of the shareholder proposing the business, supports the proposal.

OTHER MATTERS

We know of no other matters to be submitted to the meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the enclosed proxy card to vote the shares they represent as we may recommend.

It is important that your shares be represented at the meeting, regardless of the number of shares that you hold. You are, therefore, urged to execute the accompanying proxy card and return it in the enclosed envelope.

THE BOARD OF DIRECTORS

Tampa, Florida

April 2, 2004

SRI/SURGICAL EXPRESS, INC.

2004 STOCK COMPENSATION PLAN

SRI/Surgical Express, Inc. establishes the following 2004 Stock Compensation Plan for the exclusive benefit of its eligible employees and non-employee Directors:

ARTICLE I

PURPOSE AND INTERPRETATION

1.1 *PURPOSE*. The purpose of this Plan is to further the interests of the Company, its Subsidiaries (if any), and its shareholders by providing incentives in the form of Stock Options and Restricted Stock grants to key employees and non-employee Directors who contribute materially to the success and profitability of the Company. The Plan is intended to enable the Company to attract and retain key employees and non-employee Directors, to reward outstanding individual contributions, and to give selected key employees and non-employee Directors an interest in the Company parallel to that of its shareholders, thus enhancing their proprietary interest in the Company's continued success and progress.

1.2 *DEFINITIONS*. As used in this Plan, the following capitalized terms have the respective definitions attributed to them:

ADMINISTRATIVE COMMITTEE means the Board of Directors or any Board Committee to whom the Board of Directors has delegated the administration of this Plan pursuant to Section 2.1. However, with respect to any Award granted to a non-employee Director, *Administrative Committee* means the Board of Directors.

AFFILIATE means a Subsidiary, a parent corporation of the Company, or a corporation of which 50% or more of the total combined voting power of all classes of its stock is owned directly or indirectly by a parent corporation of the Company.

AWARD means, individually or collectively, a grant under this Plan of Restricted Stock or Stock Options.

BOARD OF DIRECTORS means the Board of Directors of the Company.

BOARD COMMITTEE means a committee consisting of two or more directors who are appointed by the Board of Directors of the Company.

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CHANGE IN CONTROL means any of the following: (a) the shareholders of the Company approve a liquidation of all or substantially all the consolidated assets of the Company and its Subsidiaries, other than a liquidation of a Subsidiary into the Company or another Subsidiary (unless the transaction is subsequently abandoned or otherwise fails to occur); (b) the shareholders of the Company approve a sale, lease, exchange, or other transfer to any person, persons or group other than the Company or a Subsidiary (in a single transaction or related series of transactions) of all or substantially all of consolidated assets of the Company and its Subsidiaries, excluding the creation (but not the foreclosure) of a lien, mortgage, security interest, or other financing arrangement (unless the transaction is subsequently abandoned or otherwise fails to occur); (c) during any period of two consecutive years, individuals who at the beginning of the period constitute the Board of Directors, and any new Director whose election by the Board of Directors or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the Board of Directors; (d) the shareholders of the Company approve a merger or a consolidation of the Company with any other entity (unless the transaction is subsequently abandoned or otherwise fails to occur), other than (i) a merger or consolidation that would result in the voting securities of the Company outstanding immediately

before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50 percent of the combined voting power of the voting securities of the Company or the surviving entity outstanding immediately after the merger or consolidation or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person, as the term is used in Sections 13(d) and 14(d) of the Exchange Act acquires more than 50 percent of the combined voting power of the Company's then outstanding securities; or (e) the occurrence of any event, transaction, or arrangement that results in any person (as defined above), or group (as determined for purposes of Section 13(d)(3) of the Exchange Act) becoming a beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing a majority of the combined voting power of all the outstanding securities of the Company that are entitled to vote generally in the election of its directors, the beneficial owner is the Company, a Subsidiary, an employee benefit plan sponsored by the Company, a person or group who is a record or beneficial owner of 25% or more of the outstanding Shares on the Date of Grant, or a person who becomes a beneficial owner of 25% or more of the outstanding Shares solely by becoming a trustee of an inter vivos trust created by a person who is the record or beneficial owner of 25% or more of the outstanding Shares on the Date of Grant.

COMMON STOCK means the common stock, \$.001 par value, of the Company.

COMPANY means SRI/Surgical Express, Inc., a Florida corporation and the sponsor of this Plan.

COVERED EMPLOYEE means a covered employee within the meaning of Section 162(m)(3) of the Internal Revenue Code, or any successor provision thereto.

DATE OF GRANT means the date as of which an Award is granted to a Participant by the Administrative Committee.

DIRECTOR means a member of the Board of Directors or a member of the board of directors of any Subsidiary.

EMPLOYEE means a person who is employed by the Company or a Subsidiary on a full-time, salaried basis for at least 30 hours each week.

EXCHANGE ACT means the United States Securities Exchange Act of 1934, as amended, and includes all rules and regulations of the Securities and Exchange Commission promulgated under that act.

INCENTIVE OPTION means a Stock Option granted under this Plan that is intended to qualify as an incentive stock option, as defined in section 422 of the Internal Revenue Code, as in effect on the Date of Grant of the Stock Option.

INTERNAL REVENUE CODE means the United States Internal Revenue Code of 1986, as amended from time to time, or any United States income tax law subsequently enacted in substitution for that code.

MARKET VALUE means, as of any particular day, the average of the high and low regular sale prices of the Shares on such day (or if such day is not a business day on the preceding business day) as reported on the Nasdaq National Market (Nasdaq), or if not reported on Nasdaq, as reported

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on the principal national securities exchange or other market on which the Shares are listed or admitted to trading (the Exchange). If no regular sale of the Shares was reported on such day, Market Value shall mean the average of the closing high bid and low asking price of the Shares as reported by Nasdaq (or the Exchange) on such day. If there are no bid and asking prices reported on such day, the Market Value shall be determined by the Administrative Committee in accordance with the regulations promulgated under Section 2031 of the Internal Revenue Code, or by any other appropriate method selected by the Administrative Committee.

NONQUALIFIED OPTION means a Stock Option granted under this Plan that is not designated as an Incentive Option.

OPTION AGREEMENT means an agreement between the Company and a Participant that sets forth the terms, conditions, limitations, and restrictions applicable to the Participant's Stock Option.

OPTION YEAR means, with respect to a Stock Option granted under this Plan, a period of 12 consecutive months beginning on its Date of Grant or an anniversary of its Date of Grant.

PARTICIPANT means an Employee who is selected by the Administrative Committee, or a non-employee Director who is selected by the Board of Directors, to receive an Award pursuant to this Plan, in the person's capacity as a participant under the Plan.

PERIOD OF RESTRICTION means the period during which the transfer of Shares of Restricted Stock is restricted, pursuant to Article V.

PLAN means this 2004 Stock Compensation Plan of the Company, as originally adopted and as subsequently amended, modified, restated or supplemented in accordance with its terms.

RESTRICTED STOCK means Common Stock granted to a Participant pursuant to Article V of this Plan.

SECURITIES ACT means the United States Securities Act of 1933, as amended, and includes all rules and regulations of the Securities and Exchange Commission promulgated under that Act.

SHARES means shares of the Common Stock or any securities issued in exchange or substitution for those shares pursuant to a transaction described in Section 6.1.

STOCK OPTION means an option to purchase Shares from the Company that is granted to a Participant pursuant to this Plan, whether as an Incentive Option or a Nonqualified Option.

STOCK RESTRICTION AGREEMENT means an agreement between the Company and a Participant that sets forth the terms, conditions, limitations, and restrictions applicable to the Participant's Restricted Stock.

SUBSIDIARY means a corporation of which 80% of its voting securities are owned directly or indirectly by the Company and includes any corporation that qualifies as a subsidiary corporation as defined in section 424(f) of the Internal Revenue Code.

1.3 *OTHER WORDS.* As used in this Plan, (a) the word "or" is not exclusive, (b) the words "consent" and "approval" are synonymous, (c) the word "including" is always without limitation, (d) words in the singular number include words in the plural number and vice versa, and (e) the following uncapitalized words and terms have the respective meanings ascribed to them:

AFFILIATE has the meaning attributed to it in Rule 12b-2 under the Exchange Act.

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BENEFICIAL OWNER has the meaning attributed to it under Rule 13d-3 under the Exchange Act, and the terms *BENEFICIALLY OWNED* and

BENEFICIAL OWNERSHIP have the same meaning as *BENEFICIAL OWNER*.

BUSINESS DAY has the meaning attributed to it in Rule 14d-1(c)(6) under the Exchange Act.

DISABILITY means a total and permanent disability as defined in section 22(e)(3) of the Internal Revenue Code.

GROUP has the meaning attributed to that term in Rule 13d-5(b)(1) under the Exchange Act and includes two or more persons who agree to act in concert for the purpose of voting, acquiring, or holding any securities of the Company or any Subsidiary.

PARENT CORPORATION has the meaning attributed to that term in section 424(e) of the Internal Revenue Code.

1.4 *HEADINGS AND REFERENCES*. The titles and headings preceding the text of the articles and sections of this Plan are solely for convenient reference and neither constitute a part of this Plan nor affect its meaning, interpretation, or effect. Unless otherwise expressly stated, a reference in this Plan to a Section refers to a section of this Plan and a reference in this Plan to an Article refers to an article of this Plan.

1.5 *LIMITATION OF RIGHTS*. Nothing in this Plan, whether express or implied, is intended or should be construed to confer upon, or to grant to, any person (other than the Participants and their respective heirs, guardians, and personal representatives) any claim, right, remedy, or privilege under or because of this Plan or any provision of it, except that every member of the Administrative Committee is a third-party beneficiary of the provisions of Sections 2.2 and 2.4. An employee or non-employee Director of the Company or any Subsidiary does not have any claim or right to participate in this Plan, and the grant of an Award to a Participant does not create or extend any right of the Participant to continue to serve as an employee or non-employee Director of the Company or any Subsidiary, to participate in any other stock option or employee benefit plan of the Company or any Subsidiary, or to receive the same employee benefits as any other employee of the Company or any Subsidiary. Furthermore, an employee's selection as a Participant does not restrict in any way the right of the Company or a Subsidiary to terminate at any time the Participant's employment with it either at will or as provided in any written employment agreement between it and the Participant.

1.6 *GOVERNING LAW*. The validity, construction, enforcement, and interpretation of this Plan are governed by the laws of the United States of America and the State of Florida, excluding the laws of those jurisdictions relating to resolution of conflicts with laws of other jurisdictions.

ARTICLE II

PLAN ADMINISTRATION

2.1 *ADMINISTRATIVE COMMITTEE*. This Plan will be administered by the Board of Directors, or, at its election, the Board of Directors may delegate administration of this Plan (other than with respect to non-employee Directors) to an Administrative Committee consisting of two or more directors who are appointed by the Board of Directors and satisfy the criteria described below. The members of the Administrative Committee will serve for unspecified terms at the discretion of the Board of Directors. The Board of Directors has the exclusive power to increase or decrease the size of the Administrative Committee, appoint additional members of the Administrative Committee, remove a member of the Administrative Committee (as such) at any time, with or without cause, and appoint a successor to fill any vacancy on the Administrative Committee. The Board of Directors shall not appoint as a member of the Administrative Committee any director who (a) is an officer or employee of the Company, any Subsidiary, or any parent corporation of the Company or who does not qualify as an outside director for purposes of section 162(m) of the Internal Revenue Code, (b) receives directly or indirectly from the Company, any Subsidiary, or any parent corporation of the Company a dollar amount of compensation for services rendered as a consultant or in any capacity other than as a director for which disclosure would be required pursuant to Item 404(a) of Regulation S-K under the Exchange Act and the Securities Act, (c) possesses an interest in any other transaction to which the Company or any Subsidiary was or will be a party and for which disclosure would be required pursuant to Item 404(a) of Regulation S-K under the Exchange Act and the Securities Act, or (d) has a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K under the Exchange Act and the Securities Act. If the Board of Directors is unable to appoint an Administrative Committee comprising two or more directors who satisfy the foregoing criteria, or if the Administrative Committee ceases at any time to comprise directors who satisfy those criteria, the Board of Directors shall serve as the Administrative Committee for this Plan, and all Awards granted under this Plan must be approved by the Board of Directors.

2.2 *POWER AND AUTHORITY*. Subject to compliance with all applicable rules and regulations of any relevant authorities, including stock exchanges and the Securities and Exchange Commission, the Administrative Committee has the exclusive power and authority, and the sole and absolute discretion, to do the following: (a) construe and interpret this Plan; (b) select the Employees and non-employee Directors who will be Participants in this Plan; (c) adopt, amend, and rescind forms, rules, procedures, and regulations relating to this Plan (all of which must be approved by the Board of Directors if a Board Committee serves as the Administrative Committee); (d) grant Awards under the Plan, either conditionally or unconditionally; (e) determine when

Awards will be granted under the Plan; (f) determine the number of Shares subject to each Award; (g) determine the Market Value of a Share in accordance with the provisions of this Plan; (h) determine the terms and conditions of each Award, including, in the case of Restricted Stock, the duration of the restriction period, the conditions under which the Restricted Stock will vest, and any limitations, restrictions, performance criteria, or forfeiture conditions applicable to the Restricted Stock, and in the case of a Stock Option, the exercise price (which must comply with Section 4.2), the methods of exercising the Stock Option, the methods for payment of the exercise price, the time or times when the Stock Option will become exercisable and the duration of the exercise period (which must not exceed the limitations specified in Section 4.2), the conditions under which the Stock Option will vest and become exercisable, and any limitations, restrictions, performance criteria, or forfeiture conditions applicable to the Stock Option or any Shares purchased pursuant to it; (i) determine the consideration for the granting of an Award and the consideration to be paid for Shares purchased pursuant to a Stock Option (subject to Section 4.5); (j) to approve and recommend amendments to the Plan for adoption by the Board of Directors and (if necessary or desirable) the shareholders of the Company; (k) authorize any officer or director of the Company to execute in the name and on behalf of the Company any agreement, certificate, instrument, or other document required to carry out the purposes of this Plan; (l) engage the services of any agent, expert, or professional advisor in furtherance of the Plan's purposes; (m) amend any outstanding Stock Restriction Agreement or Option Agreement, subject to complying with applicable legal restrictions and obtaining the approval of the Participant who is a party to such agreement; (n) determine whether, to what extent, and under what circumstances payment of cash, Shares, other property and other amounts payable with respect to an Award made under the Plan shall be deferred either automatically or at the election of the Participant; and (o) take all other actions, and make all other determinations, that are advisable or necessary for the Plan's administration. Except as provided in Section 6.9, the Administrative Committee shall be authorized to make adjustments in Award criteria or in the terms and conditions of Awards in recognition of unusual or nonrecurring events affecting the Company or its financial statements or changes in applicable laws, regulations or accounting principles. The Administrative Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry it into effect. In the absence of fraud or mistake, any action, decision, interpretation, or determination by the Administrative Committee, including constructions of disputed or doubtful Award or Plan provisions, will be final and binding on all persons.

The Board of Directors may reserve to itself any of the power and authority conferred on the Administrative Committee, provided that any Awards to executive officers of the Company are approved or recommended by the Compensation Committee of the Company. All references in this Plan to the Administrative Committee include the Board of Directors whenever it is exercising the power and authority of the Administrative Committee.

2.3 APPROVAL PROCEDURES. All actions and determinations of the Administrative Committee must be unanimous, unless the Board of Directors is exercising the power and authority of the Administrative Committee. All actions and determinations of the Board of Directors with respect to this Plan must be approved in the manner provided by the Company's Bylaws and applicable law. Every action or determination of the Administrative Committee that is expressly required or permitted under this Plan will be valid only if undertaken pursuant to a vote, consent, or approval that is evidenced by either (a) a resolution adopted by the affirmative vote of the requisite number of members of the Administrative Committee at a meeting, or (b) a written consent signed by the requisite number of members of the Administrative Committee. The members of the Administrative Committee may execute a written consent in counterparts. Each executed counterpart will constitute an original document, and all of them, together, will constitute the same document. A properly executed written consent will be effective as of the date specified in it or, if an effective date is not so specified, on the date when it is signed by the last director whose signature is necessary to validate it, and will be valid if it is executed before, after, or concurrently with the action or determination to which it applies.

2.4 INDEMNIFICATION. A member of the Administrative Committee is not liable for, and the Company and each Participant releases each member of the Administrative Committee from all liability for, any punitive,

incidental, compensatory, consequential, or other damages or obligation to the Company or any Employee, Participant, or other person for any act or omission by the member of the Administrative Committee (including the person's own negligence), or by any agent, employee, professional advisor, or other expert used or engaged by the Administrative Committee, if the act or omission does not constitute gross negligence or willful misconduct and is done or omitted in good faith, on behalf of the Company, and in a manner reasonably believed by the member of the Administrative Committee to be both in the best interests of the Company and within the scope of the authority granted to the Administrative Committee by this Plan. The Company shall indemnify each member of the Administrative Committee, and shall reimburse the member from the Company's assets, for any cost, loss, damage, expense, or liability (including fines, amounts paid in settlement, and legal fees and expenses) incurred by the member by reason of any act or omission for which the member is released from liability pursuant to this Section 2.4.

ARTICLE III

PARTICIPANTS AND BENEFIT LIMITATIONS

3.1 *PARTICIPANTS*. Every Employee and non-employee Director is eligible to be selected to participate in this Plan; provided, however, that Incentive Options shall only be awarded to employees within the meaning of Section 422 of the Internal Revenue Code. Notwithstanding any provision in this Plan to the contrary, the Board of Directors shall have the authority, in its sole and absolute discretion, to select non-employee Directors as Participants who are eligible to receive Awards other than Incentive Options under the Plan. The Board of Directors shall set the terms of any such Awards in its sole and absolute discretion, and the Board of Directors shall be responsible for administering and construing such Awards in substantially the same manner that the Administrative Committee administers and construes Awards to Employees. The Administrative Committee's designation of a Participant at any particular time does not require the Administrative Committee to designate that Participant to receive any Award at any other time or to receive the same Award as any other Participant at any time. The Administrative Committee may consider factors that it considers pertinent in selecting Participants and in determining the terms and conditions of Awards granted to them, including the following: (a) the consolidated financial condition of the Company; (b) the expected net income of the Company for the current or future years; (c) the contributions of a Participant to the success and profitability of the Company; and (d) the adequacy of the Participant's other compensation. The Administrative Committee may grant an Award to a Participant even if an Award previously was granted to the Participant under this Plan or another grant was made to the Participant under another plan of the Company or an Affiliate, and whether or not the previously granted benefits have been fully exercised. An Employee or non-employee Director who participates in another benefit plan of the Company or an Affiliate also may participate in this Plan.

3.2 *BENEFIT LIMITATIONS*. The total number of Shares that are authorized to be issued pursuant to the award of Restricted Stock or exercise of Stock Options granted under this Plan is limited to Five Hundred Thousand (500,000) Shares. This amount will be adjusted automatically in accordance with Section 6.1. If an Award lapses, expires, or is cancelled, forfeited, or terminated as a whole or in part for any reason other than the exercise of a Stock Option, the forfeited Shares or the Shares subject to the unexercised portion of the Stock Option (or the part of it so cancelled, forfeited, or terminated) will be available for the future grants of Awards under this Plan. If a Participant pays the exercise price for Shares purchased pursuant to the exercise of a Stock Option by delivering to the Company previously acquired Shares, the number of Shares available for future Awards under this Plan will be reduced only by the net amount of Shares issued in connection with the exercise of the Stock Option (that is the number of Shares issuable pursuant to the exercise of the Stock Option, less the number of Shares retained by, or delivered to, the Company in payment of the exercise price).

ARTICLE IV
STOCK OPTIONS

4.1 *STOCK OPTION GRANTS*. Subject to the terms and provisions of the Plan, the Administrative Committee, at any time and from time to time, may grant Stock Options under the Plan to such Participants and in such amounts as it shall determine. Stock Options granted to non-employee Directors shall be Nonqualified Options. Each Stock Option issued to an Employee will constitute an Incentive Option unless the Administrative Committee designates such Stock Option as a Nonqualified Option or such Stock Option fails to comply with the requirements of Section 4.3 (in which case it will constitute a Nonqualified Option). The Administrative Committee may grant an Employee both Incentive Options and Nonqualified Options, at the same time or at different times.

4.2 *EXERCISE PRICE AND DATES*. The purchase price for each Share issuable pursuant to the exercise of a Stock Option must be not less than the Market Value of a Share on the Date of Grant of the Stock Option. Every Stock Option must expire not later than ten years after its Date of Grant, and, except as otherwise provided in Sections 4.6 and 6.2 or in the Option Agreement, it will expire on the 90th day following the date when the Participant ceases to be an Employee or non-employee Director. However, if a Participant owns (within the meaning of section 422(b)(6) of the Internal Revenue Code) at the time when an Incentive Option is granted to the Participant stock representing more than 10% of the total combined voting power of all classes of outstanding stock of the Company, any Subsidiary, or any parent corporation of the Company, then: (a) the Incentive Option must expire not later than five years after its Date of Grant; and (b) the exercise price of the Incentive Option must be not less than 110% of the Market Value of a Share on the Date of Grant of the Incentive Option. Stock Options are not exercisable until they have been accepted by the Participant. An award of a Stock Option to a Participant will be cancelled automatically if the Participant does not accept the award within 30 calendar days following the date when the Participant is given written notice of the award. Unless a Participant's Option Agreement expressly provides otherwise, every Stock Option will be exercisable in serial increments after each Option Year as follows:

After Option Year	Percentage Exercisable	
	Per Option Year	Cumulatively
1	20%	20%
2	20%	40%
3	20%	60%
4	20%	80%
5	20%	100%

Subject to the foregoing limitations, the Administrative Committee may impose on an award of a Stock Option any terms and conditions that it determines to be desirable, including performance criteria, forfeiture provisions, and additional or different vesting conditions. Extension of the expiration date of a Stock Option beyond its initially scheduled expiration date is not permitted. In calculating the stock ownership of any person for purposes of the foregoing, the attribution rules of section 424(d) of the Internal Revenue Code will apply.

4.3 *INCENTIVE OPTIONS*. Notwithstanding anything in this Plan to the contrary, a Stock Option must satisfy all conditions and requirements imposed by the Internal Revenue Code for incentive stock options and any policies adopted by the Administrative Committee with respect to incentive stock options in order to qualify as an Incentive Option. In addition, if a Stock Option which is intended to qualify as an Incentive Option is granted for a number of Shares having an aggregate Market Value on the Date of Grant in excess of \$100,000, then, notwithstanding anything in this or the relevant Option Agreement to the contrary, the Incentive Option will be exercisable in each calendar year as to only that number of Shares having a Market Value on the Date of Grant of not more than \$100,000. However, the number of Shares as to which an Incentive Option is exercisable in any one calendar year is cumulative, so, if the Incentive Option is not exercised to the fullest extent allowed in any

one calendar year, the unexercised portion will accumulate and carry forward to ensuing years. For example, if in 2004, the Company were to grant an Employee an Incentive Option to purchase 100,000 Shares at an exercise price of \$5.00 per Share (which was the then current Market Value), the Incentive Option would be exercisable with respect to only 20,000 Shares during 2005, and the Incentive Option would become exercisable with respect to 20,000 additional Shares in each successive year (2006 through 2009). If the Participant elected to purchase only 10,000 Shares pursuant to the Incentive Option during 2005, the Participant could purchase up to 30,000 Shares in 2006, and, if no additional purchases were made in 2006, the Participant could purchase up to 50,000 Shares in 2007 (carry forward of 10,000 Shares from 2005 and 20,000 Shares from 2006; plus 20,000 Shares in 2007).

4.4 EXERCISE OF STOCK OPTIONS. Subject to limitations imposed by this Plan and the Option Agreement, a Participant may exercise a Stock Option as a whole or in part in increments of the lesser of 100 Shares or the number of Shares then exercisable at any time and from time to time before it expires. A partial exercise of a Stock Option will not affect a Participant's subsequent right to exercise the Stock Option as to the remaining Shares subject to the Stock Option. A Stock Option must be exercised for a number of whole Shares and is not exercisable for a fraction of a Share. To exercise a Stock Option, a Participant must do the following: (a) deliver to the Company a written notice of exercise in such form as prescribed by the Administrative Committee; (b) tender to the Company full payment for the Shares to be purchased pursuant to the exercise of the Stock Option; (c) pay to the Company, or make an arrangement satisfactory to the Administrative Committee for the payment of, any tax withholding required in connection with the exercise of the Stock Option (including FICA, Medicare, and local, state, or federal income taxes); and (d) comply with any and all other reasonable requirements established by the Administrative Committee for the exercise of Stock Options. The exercise date of a Stock Option will be the date when (i) the Company has received the written notice of exercise and full payment of the exercise price, (ii) the Participant has paid to the Company or made a satisfactory arrangement for the payment of any requisite tax withholding, and (iii) any and all other requirements of exercise established by the Administrative Committee have been satisfied.

4.5 PAYMENT OF EXERCISE PRICE. A Participant may pay all or any part of the exercise price and any applicable tax withholding for any Shares to be purchased pursuant to exercise of a Stock Option by any combination of the following methods:

(a) By bank draft, money order, or personal check payable to the order of the Company; or

(b) By transferring to the Company outstanding Shares that have been owned by the Participant for more than six months on the exercise date of the Stock Option.

Shares that are transferred to, or withheld by, the Company in payment of the exercise price or any tax withholding will be valued for purposes of payment at their Market Value on the exercise date of the Stock Option, as determined pursuant to Section 4.4. The foregoing provision does not preclude the exercise of a Stock Option by any other proper legal method specifically approved in advance by the Administrative Committee. The Administrative Committee shall determine the acceptable methods for tendering or withholding Shares as payment of the exercise price of a Stock Option and may impose limitations and prohibitions on the use of Shares to pay the exercise price of a Stock Option as it considers appropriate for tax, legal, business, or accounting reasons. No one has the rights of a shareholder with respect to Shares subject to a Stock Option until a certificate representing those Shares has been delivered to the person exercising the Stock Option.

4.6 EXERCISE CONDITIONS. A Stock Option expires and ceases to be exercisable on the 90th day after the Participant to whom it was granted ceases to be an Employee or non-employee Director, except as otherwise provided in this Plan and in the Option Agreement. If a Participant's employment with the Company or a Subsidiary is terminated (voluntarily or involuntarily), the Participant may exercise her or his Stock Option within 90 calendar days following the date of termination of employment. If a Participant dies or ceases to be an Employee or non-employee Director because of a disability at a time when the Participant is entitled to exercise a Stock Option, the Stock Option will continue to be exercisable for one year after the Participant's death or

disability by the Participant or the Participant's guardian (in the case of disability) or the Participant's heir or personal representative (in the case of death). Notwithstanding the foregoing, a Stock Option is never exercisable later than its stated expiration date. After the death, disability, or termination of employment of a Participant, a Stock Option of the Participant will be exercisable only with respect to the number of Shares (if any) that could have been exercised as of the date when the Participant ceased to be an Employee or non-employee Director (subject to any adjustment required by Section 6.1). A Stock Option will terminate to the extent that it ceases to be exercisable for any of the Shares subject to it.

4.7 NONTRANSFERABILITY OF STOCK OPTIONS. Except to the extent provided in the Option Agreement, a Participant is prohibited from transferring a Stock Option, any interest in it, or any right under an Option Agreement by any means other than by will or the law of descent and distribution. Any prohibited transfer (whether by gift, sale, pledge, assignment, hypothecation, or otherwise) will be invalid and ineffective as to the Company. In addition, a Stock Option and the Participant's rights under it and the related Option Agreement are not subject to any lien, levy, attachment, execution, or similar process by creditors. The Company may cancel any Stock Option by notice to the Participant to whom it was granted, if the Participant attempts to make a prohibited transfer, or if the Stock Option, any interest in it, or any right under the related Option Agreement becomes subject to a lien, levy, attachment, execution, or similar process by any creditor.

ARTICLE V

RESTRICTED STOCK

5.1 GRANT OF RESTRICTED STOCK. Subject to the terms and provisions of the Plan, the Administrative Committee, at any time and from time to time, may grant Shares of Restricted Stock under the Plan to such Participants and in such amounts as it shall determine. Unless required by applicable law, Participants receiving Restricted Stock grants shall not be required to pay the Company for such Restricted Stock (except for applicable tax withholding) other than the rendering of services and/or until other conditions are satisfied as determined by the Administrative Committee in its sole discretion.

5.2 STOCK RESTRICTION AGREEMENT. Each Restricted Stock grant shall be evidenced by a Stock Restriction Agreement that will specify the Period of Restriction, the conditions which must be satisfied prior to removal of the restriction, the number of Shares of Restricted Stock granted, and such other provisions as the Administrative Committee shall determine.

5.3 OTHER RESTRICTIONS. The Administrative Committee shall impose such other restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, performance criteria, forfeiture provisions, additional or different vesting conditions, and restrictions under applicable federal or state securities laws, and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions. Alternatively, the Administrative Committee, in its sole discretion, may have Shares of Restricted Stock issued without legend and held by the Secretary of the Company until such time that all restrictions are satisfied.

5.4 CERTIFICATE LEGEND. In the event that the Administrative Committee elects to legend the certificates representing Restricted Stock, and in addition to any legends placed on certificates pursuant to Section 5.3, each certificate representing Shares of Restricted Stock granted pursuant to the Plan shall bear a legend in substantially the following form:

The sale or other transfer of the shares represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in the SRI/Surgical Express, Inc. 2004 Stock Compensation Plan, effective March 1, 2004 and in a Stock Restriction Agreement dated _____ between the Company and the holder. A copy of the Plan and Stock Restriction Agreement may be

obtained from the Secretary of SRI/Surgical Express, Inc.

5.5 REMOVAL OF RESTRICTIONS. Except as otherwise provided in this Article V, Shares of Restricted Stock granted under the Plan shall become freely transferable by the Participant after the last day of the applicable Period of Restriction and/or upon the satisfaction of other conditions as determined by the Administrative Committee in its sole discretion. Once the Shares of Restricted Stock are released from all restrictions, the Participant will be entitled to have removed any legend that may have been placed on the certificates representing such Shares pursuant to Sections 5.3 and 5.4.

5.6 VOTING RIGHTS. During the Period of Restriction, Participants in whose name Shares of Restricted Stock are granted under the Plan may exercise full voting rights with respect to those Shares.

5.7 DIVIDENDS AND OTHER DISTRIBUTIONS. During the Period of Restriction, Participants in whose name Shares of Restricted Stock are granted shall be entitled to receive all dividends and other distributions paid with respect to those Shares. If any such dividends or distributions are paid in Shares, such Shares shall be subject to the same restrictions on transferability as the Shares of Restricted Stock with respect to which they were distributed, and the Shares shall be so legended.

5.8 TERMINATION. Except as otherwise provided in this Plan and in the Stock Restriction Agreement, if a Participant's employment with the Company is terminated by either the Participant or the Company, then all of that Participant's Shares of Restricted Stock which remain subject to restriction on the date of termination shall be forfeited. Notwithstanding the foregoing, (a) if a Participant dies during any applicable Period of Restriction, that Participant's Shares of Restricted Stock which remain subject to restriction shall become fully vested effective as of the date of death, and (b) if a Participant ceases to be an Employee or non-employee Director because of a disability during any applicable Period of Restriction, that Participant's Shares of Restricted Stock which remain subject to restriction shall not be forfeited, and shall continue to vest according to the terms of this Plan and the Stock Restriction Agreement.

5.9 NONTRANSFERABILITY OF RESTRICTED STOCK. Except as provided in this Article V or to the extent provided in the Stock Restriction Agreement, a Participant is prohibited from transferring a Share of Restricted Stock, any interest in it, or any right under a Stock Restriction Agreement by any means other than by will or the law of descent and distribution. Any prohibited transfer (whether by gift, sale, pledge, assignment, hypothecation, or otherwise) will be invalid and ineffective as to the Company. In addition, a Share of Restricted Stock and the Participant's rights under it and the related Stock Restriction Agreement are not subject to any lien, levy, attachment, execution, or similar process by creditors. The Company may cancel any Share of Restricted Stock by notice to the Participant to whom it was granted, if the Participant attempts to make a prohibited transfer, or if the Share of Restricted Stock, any interest in it, or any right under the related Stock Restriction Agreement becomes subject to a lien, levy, attachment, execution, or similar process by any creditor.

ARTICLE VI

ADDITIONAL PROVISIONS

6.1 ADJUSTMENTS FOR CORPORATE TRANSACTIONS. The Administrative Committee may determine that a corporate transaction has occurred affecting the Shares such that an adjustment or adjustments to outstanding Awards is required to preserve (or prevent the enlargement of) the benefits or potential benefits intended at the Date of Grant. For this purpose, a corporate transaction includes, but is not limited to, a dividend or other distribution (whether in the form of cash, common stock, securities of a subsidiary of the Company, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction. In the event of such a corporate transaction, the Administrative Committee may, in the manner that the Administrative Committee deems equitable, adjust (i) the number and kinds of Shares that may be awarded under the Plan; (ii) the number and kinds of Shares subject to outstanding Awards; and (iii) the exercise price of outstanding Stock Options.

6.2 *CHANGE IN CONTROL.*

(a) *Generally.* Subject to paragraph (b) of this Section 6.2, if a Change in Control occurs, (i) all Shares of Restricted Stock which remain subject to restriction shall become fully vested and (ii) all outstanding Stock Options will become fully vested and exercisable as of the earlier of the effective date of the shareholder approval or the effective date of any Change in Control transaction. In the event of a Change in Control, the Board of Directors may elect, in its sole discretion, to cancel any outstanding Stock Options or Restricted Stock and pay or deliver, or cause to be paid or delivered, to the Participant an amount in cash or securities having a value (as determined by the Board of Directors acting in good faith), in the case of each Share of Restricted Stock, equal to the formula or fixed price per share paid to holders of Shares and, in the case of Stock Options, equal to the product of the number of Shares subject to the Stock Option multiplied by the amount, if any, by which (i) the formula or fixed price per share paid to holders of Shares pursuant to the transaction exceeds (ii) the exercise price applicable to the Shares subject to the Stock Option. The Company shall send written notice of a transaction or event that will result in such a termination to all Participants not later than the time at which the Company notifies its shareholders of the applicable transaction or event.

(b) *Special Rules Governing Mergers and Stock Exchanges.* In the case of a merger, share exchange, or other transaction in which the shareholders of the Company receive securities of the acquirer, at the election of the Board of Directors, the Company may (but is not obligated to) elect to continue this Plan, in which case (i) each Share of Restricted Stock will be converted into restricted securities of the acquirer being issued in the transaction based on the applicable exchange or conversion ratio and (ii) each Stock Option granted under the Plan will be converted into an option to purchase securities of the acquirer being issued in the transaction. In such case, the exercise price and number of Shares subject to the Stock Option will be adjusted based on the exchange or conversion ratio (the Ratio) used to convert Shares into securities of the acquirer. The adjusted exercise price will be the exercise price per Share, divided by the Ratio. The adjusted number of Shares subject to the Stock Option will be the product of the Ratio multiplied by the number of Shares subject to the Stock Option before the transaction.

6.3 *TAX WITHHOLDING.* When a Participant is granted Shares of Restricted Stock or exercises a Stock Option, the Administrative Committee, in its sole discretion, may require the Participant to pay to the Company the amount (if any) that the Company considers necessary to satisfy its legal obligation to withhold any local, state, or federal taxes (including FICA, income, and Medicare taxes) imposed by any governmental authority as a result of the issuance of the Shares or the exercise of the Stock Option, and the Company may defer delivery of any Shares so issued until it has been paid or indemnified to its satisfaction for those taxes. A Participant may pay to the Company any requisite tax withholding by (a) in the case of a Restricted Stock grant, (i) requesting that the Company withhold from the Shares to be delivered Shares sufficient to satisfy all or a portion of such tax withholding requirements or (ii) by bank draft, money order, or personal check payable to the order of the Company, or (b) in the case of a Stock Option exercise, any of the methods of payment authorized for payment of the exercise price for Shares purchased pursuant to the Stock Option. If a Restricted Stock grant or an exercise of a Stock Option does not give rise to any tax withholding obligation on the date of the grant or exercise but is reasonably expected to do so at a future time, the Administrative Committee (in its sole discretion) may require the Participant to place some or all of the Shares in escrow for the benefit of the Company until tax withholding is required for the amounts included in the Participant's gross income as a result of the Participant's Restricted Stock grant or exercise of the Stock Option. At that time, the Administrative Committee (in its discretion) may require the Participant to pay to it an amount that it considers sufficient to satisfy the tax withholding obligation incurred by it as a result of the Participant's Restricted Stock grant or exercise of the Stock Option, in which case the Company shall promptly release to the Participant the escrowed Shares.

6.4 *RESERVATION, LISTING, AND DELIVERY OF SHARES.* The Company shall reserve from its authorized but unissued Shares and keep available until the termination of this Plan, solely for issuance upon the grant of Restricted Stock or exercise of Stock Options, the number of Shares issuable at any time pursuant to the grant of Restricted Stock or exercise of Stock Options granted or available for grant under this Plan. In addition,

the Company shall take all requisite action to assure that it validly and legally may issue fully-paid, nonassessable Shares upon the grant of Restricted Stock or exercise of each Stock Option. Also, if the Shares are traded in the Nasdaq Stock Market or on any United States national securities exchange, the Company, at its sole expense, shall reserve for quotation or listing on that market or exchange, upon official notice of issuance pursuant to the grant of Restricted Stock or exercise of Stock Options, the number of Shares issuable at any time upon the grant of Restricted Stock or exercise of Stock Options granted or available for grant under this Plan, and the Company shall maintain that listing until this Plan terminates. Promptly after Restricted Stock is granted or a Stock Option is validly exercised, the Company shall issue and deliver to the order of the Participant a stock certificate representing that number of fully-paid and nonassessable Shares that were granted or purchased, plus, instead of any fractional Share to which that person otherwise would be entitled, a cash sum equal to the product of (a) that fraction, multiplied by (b) the Market Value of one full Share as of the grant date or exercise date, as the case may be. The Company shall pay all costs and excise taxes associated with the original issuance of stock certificates representing the Shares issued.

6.5 LEGAL COMPLIANCE. Stock Options are exercisable, and Shares are issuable under this Plan, only in compliance with all applicable state and federal laws and regulations (including securities laws) and the rules of all stock markets or exchanges on which the Shares are quoted or listed for trading. Any certificate representing Shares issued under the Plan will bear such legends and statements as the Administrative Committee considers advisable to assure compliance with those laws, rules, and regulations. In addition, the Administrative Committee may require a Participant, as a condition to the grant of Restricted Stock or grant or exercise of a Stock Option, to provide to the Company any agreements, representations, and warranties that, in the opinion of counsel for the Company, are desirable or necessary to comply with applicable laws and all rules and regulations of any stock market or exchange on which the Shares are traded or quoted, including a representation that the Shares granted or Shares issuable pursuant to exercise of the Stock Option are or will be acquired for investment purposes without a view to distribute them to others. A grant of Restricted Stock is not effective and a Stock Option is not exercisable, and the Company shall not issue any Shares under this Plan, until the Company has obtained any consent or approval required from any state or federal regulatory body having jurisdiction. Upon the transfer of Restricted Stock or exercise of a Stock Option by an heir, guardian, or personal representative of a Participant, the Administrative Committee may require reasonable evidence of the person's legal ownership of the Restricted Stock or Stock Option and any consents and releases of governmental authorities as it determines are advisable.

6.6 AMENDMENT AND TERMINATION. The Board of Directors may alter, amend, suspend, or terminate this Plan at any time without approval of the Company's shareholders, unless the approval of the Company's shareholders is required to comply with applicable law or any rule or regulation of a stock market or exchange on which the Shares are traded or quoted. An amendment or termination of this Plan, whether with or without the approval of the Company's shareholders, that would adversely affect any right or obligation of a Participant under an outstanding Award will not be valid or effective as to that Award without that Participant's written consent. No action may be taken by the Board of Directors or the Administrative Committee without the approval of the shareholders that would, except as expressly provided in Section 6.1, materially increase the number of Shares that may be issued under the Plan.

6.7 EXPENSES AND PROCEEDS. The Company shall pay all expenses of the Plan. The Company may use the cash proceeds received from Participants upon the exercise of Stock Options for general corporate purposes.

6.8 SECTION 16(b) EXEMPTIONS. With respect to Participants subject to section 16(b) of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of SEC Rules 16b-3 and 16b-6 and any rule promulgated by the Securities and Exchange Commission under the Exchange Act in substitution for either of those rules. To the extent any provision of this Plan or action by the Administrative Committee fails to so comply, it shall be null and void to the extent permitted by law and determined by the Administrative Committee. In furtherance of the foregoing objective, the Administrative Committee may include in a Stock Restriction Agreement or an Option Agreement with a Participant who is subject to section 16 of the Exchange Act any additional conditions or restrictions that are required to qualify the grant of Restricted Stock or

grant and exercise of the Stock Option for exemption under Rules 16b-3 and 16b-6 or any future rule providing an exemption for such grant of Restricted Stock or grant and exercise of stock options.

6.9 *INTERNAL REVENUE CODE SECTION 162(m) PROVISIONS.*

(a) Notwithstanding any other provision of the Plan, if the Administrative Committee determines at the time an Award is granted to a Participant who is then an officer that such Participant is, or is likely to be as of the end of the tax year in which the Company would ordinarily claim a tax deduction in connection with such Award, a Covered Employee, then the Administrative Committee may provide that this Section 6.9 is applicable to such Award.

(b) If an Award is subject to this Section 6.9, then the lapsing of restrictions thereon and the distribution of cash, Shares, or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Administrative Committee, which shall be based on the attainment of specified levels of one or any combination of the following: revenues, cost reductions, operating income, income before taxes, net income, adjusted net income, earnings per share, adjusted earnings per share, operating margins, working capital measures, return on assets, return on equity, return on invested capital, cash flow measures, market share, shareholder return or economic value added of the Company or the Affiliate or division of the Company for or within which the Participant is primarily employed. Such performance goals also may be based on the achievement of specified levels of Company performance (or performance of an applicable Affiliate or division of the Company) under one or more of the measures described above relative to the performance of other corporations. Such performance goals shall be set by the Administrative Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Internal Revenue Code, or any successor provision thereto, and the regulations thereunder.

(c) With respect to any Award that is subject to this Section 6.9, the Administrative Committee may adjust downwards, but not upwards, the amount payable pursuant to such Award, and the Administrative Committee may not waive the achievement of the applicable performance goals, except in the case of the death or disability of the Participant, or under such other conditions where such waiver will not jeopardize the treatment of other Awards under this Section as performance-based compensation under Section 162(m) of the Internal Revenue Code.

(d) The Administrative Committee shall have the power to impose such other restrictions on Awards subject to this Section 6.9 as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for performance-based compensation within the meaning of Section 162(m)(4)(C) of the Internal Revenue Code, or any successor provision thereto.

6.10 *DURATION AND EFFECTIVE DATE.* This Plan will become effective as of March 26, 2004, subject to approval by the Company's shareholders within 12 months after that date, and will terminate on the tenth anniversary of its effective date. The Company is not authorized to grant any Awards until this Plan receives approval of the Company's shareholders or after the termination date of this Plan.

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EFFECTIVE DATE: MARCH 26, 2004

ADOPTED BY BOARD OF DIRECTORS ON

MARCH 26, 2004

ADOPTED BY SHAREHOLDERS ON

MAY 19, 2004

SRI/SURGICAL EXPRESS, INC.

By:

ATTEST:

[CORPORATE SEAL]

_____, Secretary

