



Leading the industry in laser therapies
that treat eye diseases and conditions
of the skin



Fellow Shareholders,

2004 was a very busy and productive year for IRIDEX. We successfully extended our technology lead with two new state-of-the-art laser systems and expanded our market presence. Also, significant progress was made toward bringing to market a novel and potential paradigm shifting treatment for wet age-related macular degeneration (AMD). In February, physicians presented important data from a clinical study using our infrared lasers that demonstrated the powerful impact that the Transpupillary Thermotherapy (TTT) protocol may have on this debilitating disease. Validation of the TTT protocol is a promising step towards widespread acceptance of Minimum Intensity Photocoagulation™ (MIP) laser protocols as a gentler alternative to traditional laser treatment and a more cost effective alternative to pharmaceutical treatments. All of these successes have combined to create a solid foundation for the coming years.

IRIDEX strives to provide high quality, cost-effective laser systems to treat patients worldwide. At year's end, our laser systems have been installed in more than 107 countries. Globally, our technology continues to be used to deliver hope to patients with AMD, diabetic retinopathy, and glaucoma in the ophthalmic market and cosmetic relief to patients with unsightly vascular and pigmented skin lesions in the dermatology market.

2004 PRODUCT INTRODUCTIONS

In 2004, we introduced the IRIS Medical® IQ 810™ in ophthalmology, which is our top-of-the-line system designed to perform both traditional and MIP protocols in the office and operating room settings. The advanced technology incorporated into the IQ 810 allows for precisely timed laser pulses, stable power output and consistent beam quality making it the laser system of choice for MIP protocols.

Additionally, we introduced the clinically versatile VariLite™ dual wavelength laser, which received Food & Drug Administration (FDA) clearance for 19 specific dermatology indications. The VariLite offers both 532 nm and 940 nm wavelengths in one convenient package so dermatologists and plastic surgeons can quickly and effectively target smaller superficial blood vessels as well as deeper, larger vessels. These new laser systems will be part of the driving force behind our ability to achieve revenue growth.



VariLite Laser and Accessories

2004 FINANCIAL PERFORMANCE

Despite a tough market, we finished up 2004 strong, with 20% sales growth in dermatology for the fourth quarter. For the full year, our total revenue grew 4% to \$32.8 million compared with 2003 propelled by solid ophthalmology and international sales. Improved operating efficiencies helped boost our gross margins to 45.4% in 2004 compared with 44.4% in the prior year. Included in the 2004 net loss of \$402,000 was a one time charge of \$1.0 million to establish a reserve for historical adjustments of state sales taxes, which the Company chose not to retroactively collect from customers. Our balance sheet remained strong with cash, cash equivalents, and investments totaling \$18 million at year-end.

CAPTURING THE TTT OPPORTUNITY

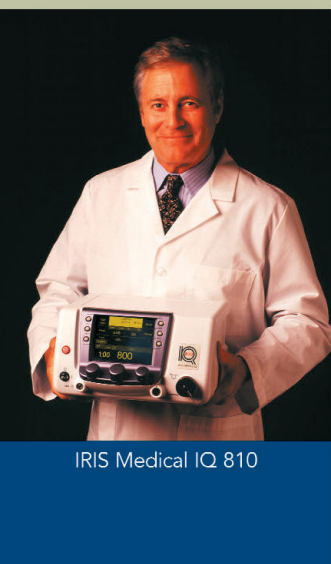
Interim results from the TTT4CNV clinical trial were presented in early 2005 proving that TTT provides a significant benefit for a sub-group of patients with wet AMD. TTT entails a painless procedure, which takes only a few minutes in just one or two laser treatment sessions, and the results were shown to persist for 18-24 months. These results were welcome news to IRIDEX and should provide a positive impact on the Company over the long-term.

Going forward, we will focus on building market share for our laser systems and supporting MIP protocols such as TTT as the economical choice of treatment for retinal diseases like AMD worldwide. While we realize that we have set challenging goals, we believe that our technology and the opportunities it offers to both patients and doctors support our ability to reach them.

I would like to thank all of the IRIDEX employees, clinical partners and business partners whose hard work and dedication have made our progress possible this year. And thanks to you, our shareholders, for your continued support.

Sincerely,

Theodore A. Boutacoff

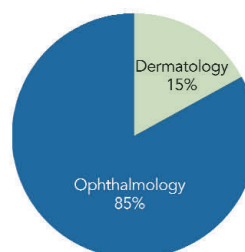
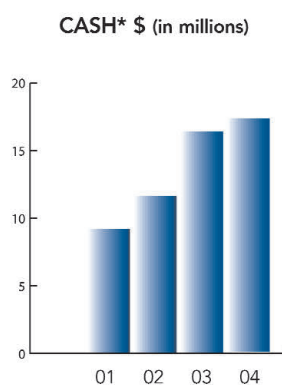
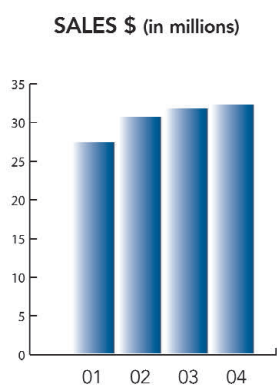


IRIS Medical IQ 810

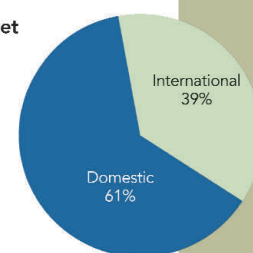
FINANCIAL OVERVIEW

	2001	2002	2003	2004
FOR THE FISCAL YEAR				
Sales	\$27,275	\$30,634	\$31,699	\$32,810
Operating Income (loss)	(\$1,989)	(\$181)	(\$48)	(\$1,076)
Income (loss) from continuing operations	(\$601)	\$150	\$371	(\$402)
Diluted net income (loss) per common share	(\$0.09)	\$0.02	\$0.05	(\$0.06)
Shares used in per share computations	6,757	6,928	7,072	7,200
END OF FISCAL YEAR				
Cash, cash equivalents and available-for-sale securities	\$9,102	\$11,542	\$16,292	\$18,028
Working capital	\$26,374	\$28,072	\$28,462	\$25,342
Total assets	\$33,788	\$34,272	\$35,839	\$39,093
Total stockholders' equity	\$29,833	\$30,198	\$30,834	\$31,783

(Dollar and share amounts in thousands except per share data)



2004 sales by market



2004 sales worldwide

Board of Directors

Donald L. Hammond, D.Sc.
Chairman of the Board
Former Director
Hewlett-Packard Laboratories

Theodore A. Boutacoff
President and Chief
Executive Officer
IRIDEX Corporation

Robert K. Anderson
Co-Founder, Former Chairman
and Chief Executive Officer
Valleylab, Inc.
Chairman
Meritech, Inc.

James L. Donovan
Vice President
Corporate Business Development
IRIDEX Corporation

Sanford Fitch
Director, Ozone International
Director, FoxHollow Technologies, Inc.

Garrett A. Garrettson, Ph.D.
Consultant and Retired CEO
ClairVoyante, Spectrian and Censtor
Corporations

Executive Officers

Theodore A. Boutacoff
President and Chief
Executive Officer

Eduardo Arias
Senior Vice President,
International Sales
and Business Development

James L. Donovan
Vice President
Corporate Business
Development

Timothy Powers
Vice President, Operations

Larry Tannenbaum
Sr. Vice President and
Chief Financial Officer

Annual Meeting

IRIDEX Corporation's 2005 annual meeting of stockholders will be held on Wednesday, June 1, 2005 at 10:00 a.m. Pacific Time at 1212 Terra Bella Avenue, Mountain View, California 94043.

Corporate Headquarters

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Independent Registered Public Accountants

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Ten Almaden Boulevard,
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San Jose, California 95113

Transfer Agent and Registrar

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Kansas City, MO 64121-9045
Stockholder Inquiries:
816-843-4299
Internet Address:
www.equiserve.com

Investor Relations

Publications of interest to current and potential IRIDEX investors are available without charge upon request. These include the annual report, quarterly earnings releases, and Forms 10-K and 10-Q filed with the Securities and Exchange Commission. In addition, the Company maintains certain financial information on the IRIDEX website at www.iridex.com.

Please direct inquiries to:

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