UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 28, 2003

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from to

Commission File Number: 0-27598

IRIDEX CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	77-0210467
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification No.)

1212 TERRA BELLA AVENUE
MOUNTAIN VIEW, CALIFORNIA 94043-1824
(Address of principal executive offices, including zip code)

(650) 940-4700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes [X] No [ ]; (2) Yes [X] No [ ]

The number of shares of common stock, $.01 par value, issued and outstanding as of August 5, 2003 was 6,919,285.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act.) Yes [ ] No [X]

IRIDEX CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

IRIDEX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	JUNE 28, 2003 (unaudited)	DECEMBER 28, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,121	$ 9,186
Available-for-sale securities	5,016	2,356
Accounts receivable, net	6,389	8,037
Inventories	10,404	10,725
Prepaids and other current assets	1,105	751
Total current assets	31,035	31,055
Property and equipment, net	729	950
Deferred income taxes	2,267	2,267
Total assets	$ 34,031	$ 34,272
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 892	$ 657
Accrued expenses	3,305	3,417
Total liabilities	4,197	4,074
Stockholders' equity:		
Common stock	70	70
Additional paid-in capital	23,652	23,631
Accumulated other comprehensive income (loss)	(1)	3
Treasury stock	(430)	(430)
Retained earnings	6,543	6,924
Total stockholders' equity	29,834	30,198
Total liabilities and stockholders' equity	$ 34,031	$ 34,272

The accompanying notes are an integral part of these condensed consolidated financial statements.

IRIDEX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 28, 2003	JUNE 29, 2002	JUNE 28, 2003	JUNE 29, 2002
Sales	$7,435	$7,433	$14,661	$14,396
Cost of sales	4,315	4,312	8,303	8,190
Gross profit	3,120	3,121	6,358	6,206
Operating expenses:				
Research and development	1,047	1,320	1,997	2,465
Sales, general and administrative	2,564	2,512	5,028	4,799
Total operating expenses	3,611	3,832	7,025	7,264
Loss from operations	(491)	(711)	(667)	(1,058)
Interest and other income, net	51	54	105	97
Loss before benefit from income taxes	(440)	(657)	(562)	(961)
Benefit from income taxes	141	210	181	307
Net loss	$ (299)	$ (447)	$ (381)	$ (654)
Net loss per common share-basic and diluted	$(0.04)	$(0.07)	$ (0.06)	$ (0.10)
Shares used in per common share basic and diluted calculations	6,919	6,861	6,916	6,849

The accompanying notes are an integral part of these condensed consolidated financial statements.

IRIDEX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS ENDED	
	JUNE 28, 2003	JUNE 29, 2002
Cash flows from operating activities:		
Net loss	$ (381)	$ (654)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	394	437
Provision for inventories	(66)	70
Deferred income taxes		(8)
Changes in operating assets and liabilities:		
Accounts receivable	1,648	1,114
Inventories	387	654
Prepaids and other current assets	(354)	57
Accounts payable	235	(447)
Accrued expenses	(112)	(220)
Net cash provided by operating activities	1,751	1,003
Cash flows from investing activities:		
Purchases of available-for-sale securities	(4,506)	(2,555)
Proceeds from maturity of available-for-sale securities	1,842	3,359
Acquisition of property and equipment	(173)	(189)
Net cash provided by (used in) investing activities	(2,837)	615
Cash flows from financing activities:		
Issuance of common stock, net	21	120
Net cash provided by financing activities	21	120
Net increase (decrease) in cash and cash equivalents	(1,065)	1,738
Cash and cash equivalents at beginning of period	9,186	4,613
Cash and cash equivalents at end of period	$ 8,121	$ 6,351
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized losses on available-for-sale securities	$ (4)	$ (5)

The accompanying notes are an integral part of these condensed consolidated financial statements.

IRIDEX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(IN THOUSANDS)
(UNAUDITED)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 28, 2003	JUNE 29, 2002	JUNE 28, 2003	JUNE 29, 2002
Net loss	$ (299)	$ (447)	$ (381)	$ (654)
Other comprehensive loss:				
Change in unrealized gain on available-for-sale securities	(2)	(3)	(4)	(5)
Comprehensive loss	$ (301)	$ (450)	$ (385)	$ (659)

The accompanying notes are an integral part of these condensed consolidated financial statements.

IRIDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of IRIDEX Corporation ("the Company") have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included.

The condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in our Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 28, 2003. The results of operations for the three and six month periods ended June 28, 2003 are not necessarily indicative of the results for the year ending January 3, 2004 or any future interim period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 28, 2002 which was filed with the Securities and Exchange Commission on March 28, 2003. The Company's significant accounting policies have not materially changed as of June 28, 2003.

3. WARRANTY

The Company accrues for an estimated warranty cost upon shipment of products in accordance with SFAS No. 5, "Accounting for Contingencies." Actual warranty costs incurred have not materially differed from those accrued. The Company's warranty policy is effective for shipped products which are considered defective or fail to meet the product specifications. Warranty costs are reflected in the statement of operations as a cost of sales. A reconciliation of the changes in the Company's warranty liability for the six months ending June 28, 2003 follows (in thousands):

Balance at the beginning of the period	$ 796
Accruals for warranties issued during the period	642
Settlements made in kind during the period	(721)
Balance at the end of the period	$717

4. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation arrangements in accordance with provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123."

Under APB 25, compensation expense for grants to employees is based on the difference, if any, on the date of the grant, between the fair value of the Company's stock and the option's exercise price. SFAS 123 defines a "fair value" based method of accounting for an employee stock option or similar equity investment. The pro forma disclosure of the difference between compensation expense included in net loss and the related cost measured by the fair value method is presented in the table at the end of this note. To comply with pro forma reporting requirements of SFAS 123, compensation cost is also estimated for the fair value of Employee Stock Purchase Plan ("ESPP") issuances, which are included in the pro forma totals below.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees, or in Conjunction with Selling Goods and Services." Stock-based compensation expense related to stock options granted to non-employees is recognized on a straight-line basis as the stock options are earned. The stock-based compensation expense will fluctuate as the deemed fair market value of the common stock fluctuates. There were no equity instruments issued to non-employees during the three and six months ended June 28, 2003.

The following table, pursuant to SFAS 123, provides a reconciliation of net loss to pro forma net loss as if the fair value method had been applied to all employee awards (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Net loss, as reported	$ (299)	$ (447)	$ (381)	$ (654)
Add: Total stock based compensation expense determined under fair value based method for all awards to employees	(104)	(104)	(221)	(279)
Pro forma net loss	$ (403)	$ (551)	$ (602)	$ (933)
Basic and diluted net loss per share:				
As reported	$ (0.04)	$ (0.07)	$ (0.06)	$ (0.10)
Pro forma	$ (0.06)	$ (0.08)	$ (0.09)	$ (0.14)

The determination of fair value of all options granted by the Company includes assumptions on expected volatility, risk free interest rate, expected term and expected dividends.

5. INVENTORIES (IN THOUSANDS):

Inventories are stated at the lower of cost or market. Cost is based on actual sales computed on a first in, first out basis. The components of inventories consist of the following:

	JUNE 28, 2003	DECEMBER 28, 2002
	(unaudited)	
Raw materials and work in progress	$ 5,784	$ 6,511
Finished goods	4,620	4,214
Total inventories.	$ 10,404	$ 10,725

6. COMPUTATIONS OF NET LOSS PER COMMON SHARE

Basic and diluted net loss per common share are computed by dividing net loss for the period by the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net loss per common share excludes potential common stock if their effect is anti-dilutive. Potential common stock consists of incremental common shares issuable upon the exercise of stock options. Basic and diluted net loss per common share are equivalent for all periods presented due to the Company's net loss position.

During the three and six months ended June 28, 2003, options to purchase 1,837,487 shares at a weighted average exercise price of $5.27 per share were outstanding, but were not included in the computations of diluted net loss per common share because their effect was antidilutive. For the three and six month periods ended June 29, 2002 options to purchase 1,614,037 shares at a weighted average price of $5.29 per share were outstanding but not included in the computations of diluted net loss per common share because their effect was antidilutive. These options could dilute earnings per share in future periods.

7. BUSINESS SEGMENTS (UNAUDITED)

We operate in two reportable segments: the ophthalmology medical device segment and the dermatology medical device segment. In both segments, we develop, manufacture and market medical devices. Our revenues arise from the sale of consoles, delivery devices, disposables and service and support activities.

Information on reportable segments for the three and six months ended June 28, 2003 and June 29, 2002 is as follows (in thousands):

	Three Months Ended June 28, 2003			Three Months Ended June 29, 2002		
	Ophthalmology Medical Devices	Dermatology Medical Devices	Total	Ophthalmology Medical Devices	Dermatology Medical Devices	Total
Sales	$ 6,019	$ 1,416	$ 7,435	$ 5,679	$ 1,754	$ 7,433
Direct Cost of Goods Sold	2,047	681	2,728	1,797	727	2,524
Direct Gross Margin	3,972	735	4,707	3,882	1,027	4,909
Total Unallocated Costs			(5,147)			(5,566)
Pre-tax income (loss)			(440)			(657)

	Six Months Ended June 28, 2003			Six Months Ended June 29, 2002		
	Ophthalmology Medical Devices	Dermatology Medical Devices	Total	Ophthalmology Medical Devices	Dermatology Medical Devices	Total
Sales	$ 11,742	$ 2,919	$ 14,661	$ 10,756	$ 3,640	$ 14,396
Direct Cost of Goods Sold	4,014	1,387	5,401	3,469	1,601	5,070
Direct Gross Margin	7,728	1,532	9,260	7,287	2,039	9,326
Total Unallocated Costs			(9,822)			(10,287)
Pre-tax income (loss)			(562)			(961)

Indirect costs of manufacturing, research and development, and selling, general and administrative costs are not allocated to the segments.

The Company's assets and liabilities are not evaluated on a segment basis. Accordingly, no disclosure on segment assets and liabilities is provided.

8. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. We do not expect the adoption of SFAS No. 150 to have a significant impact on our financial position or results of operations

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains trend analysis and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, such as statements relating to levels of future sales and operating results, actual order rate and market acceptance of our products; expectations for future sales growth, generally, and the potential for production cost decreases and higher gross margins; our anticipated ability to contain costs and results of asset management efforts; favorable Center for Medicare and Medicaid coverage decisions regarding AMD procedures that use our products; results of clinical studies and risks associated with bringing new products to market, general economic conditions and levels of international sales. In some cases, forward-looking statements can be identified by terminology, such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "continue," or the negative of such terms or other comparable terminology. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to differ materially from those expressed or implied by such forward-looking statement, including as a result of the factors set forth under "Factors That May Affect Future Operating Results" and other risks detailed in our Annual Report on Form10-K filed with the Securities and Exchange Commission on March 28, 2003 and detailed from time to time in our reports filed with the Securities and Exchange Commission. The reader is cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this Form 10-Q. We undertake no obligation to update such forward-looking statements to reflect events or circumstances occurring after the date of this report.

RESULTS OF OPERATIONS

The following table sets forth certain operating data as a percentage of sales (unaudited) for the periods indicated.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 28, 2003	JUNE 29, 2002	JUNE 28, 2003	JUNE 29, 2002
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	58.0	58.0	56.6	56.9
Gross profit	42.0	42.0	43.4	43.1
Operating expenses:				
Research and development	14.1	17.8	13.6	17.1
Sales, general and administrative	34.5	33.7	34.3	33.3
Total operating expenses	48.6	51.5	47.9	50.4
Loss from operations	(6.6)	(9.5)	(4.5)	(7.3)
Interest and other income, net	0.7	0.7	0.7	0.7
Loss before benefit from income taxes	(5.9)	(8.8)	(3.8)	(6.6)
Benefit from income taxes	1.9	2.8	1.2	2.1
Net loss	(4.0)%	(6.0)%	(2.6)%	(4.5)%

The following table sets forth for the periods indicated the amount of sales for our operating segments and sales as a percentage of total sales.

	Three Months Ended				Six Months Ended			
	June 28, 2003		June 29, 2002		June 28, 2003		June 29, 2002	
	Amount	Percentage of total sales	Amount	Percentage of total sales	Amount	Percentage of total sales	Amount	Percentage of total sales
Domestic	$ 4,680	62.9%	$ 4,744	63.8%	$ 9,220	62.9%	$ 8,743	60.7%
International	2,755	37.1%	2,689	36.2%	5,441	37.1%	5,653	39.3%
Total	$ 7,435	100.0%	$ 7,433	100.0%	$ 14,661	100.0%	$ 14,396	100.0%
Ophthalmology:								
Domestic	$ 3,628	48.8%	$ 3,220	43.3%	$ 7,050	48.1%	$ 6,037	41.9%
International	2,391	32.2%	2,459	33.1%	4,692	32.0%	4,719	32.8%
Total	$ 6,019	81.0%	$ 5,679	76.4%	$ 11,742	80.1%	$ 10,756	74.7%
Dermatology:								
Domestic	$ 1,052	14.1%	$ 1,524	20.5%	$ 2,170	14.8%	$ 2,706	18.8%
International	364	4.9%	230	3.1%	749	5.1%	934	6.5%
Total	$ 1,416	19.0%	$ 1,754	23.6%	$ 2,919	19.9%	$ 3,640	25.3%

Combined Ophthalmology and Dermatology

Sales

Sales for the three months ended June 28, 2003 were $7.4 million and at the same level when compared to the corresponding three month period ended June 29, 2002. An increase in ophthalmology sales of $0.3 million was offset by a decrease in dermatology sales of $0.3 million for the three months ended June 28, 2003. Sales for the six months ended June 28, 2003 increased 1.8% to $14.7 million from $14.4 million for the six months ended June 29, 2002. For the six month period the overall increase was driven primarily by an increase in sales of our ophthalmology products of $1.0 million offset by a $0.7 million decrease in sales of our dermatology products.

Domestic sales were $4.7 million for the three month period ended June 28, 2003 and at approximately the same level as the three month period ended June 29, 2002. For the six months ended June 28, 2003 domestic sales increased

5.5% to $9.2 million from $8.7 million. The overall increase for the six month period was driven mainly by $1.0 million in increased sales of our ophthalmology products offset by a $0.5 million decrease in sales of our dermatology products.

International sales were $2.8 million for the three months ended June 28, 2003 and $2.7 million for the comparable prior year three-month period primarily as a result of $0.1 million in increased sales of our dermatology products. For the six months ended June 28, 2003 international sales decreased 3.8% to $5.4 million from $5.7 million for the six months ended June 29, 2002. The decrease in international sales during this period was driven mainly by $0.2 million in decreased sales of our dermatology products.

We continue to face challenges marketing and selling our products in the current difficult economic environment, both domestically and internationally, and expect to face these challenges for the foreseeable future. See "-Factors That May Affect Future Results - Our Business has been Adversely Impacted by the Worldwide Economic Slowdown and Related Uncertainties."

Ophthalmology Sales

Ophthalmology sales increased 6.0% to $6.0 million for the three months ended June 28, 2003 from $5.7 million for the three months ended June 29, 2002. For the six months ended June 28, 2003 ophthalmology sales increased 9.2% to $11.7 million from $10.8 million for the comparable prior year six-month period. Domestic ophthalmology sales increased 12.7% to $3.6 million for the three months ended June 28, 2003 from $3.2 million for the comparable prior year three-month period. The increase in domestic sales during this period occurred mainly as a result of $0.3 million in increased unit sales of visible laser systems, including the Millennium Endolase module, which is incorporated as a component of Bausch and Lomb's Millennium Microsurgical System, and because of an increase in service and delivery device revenue. For the six months ended June 28, 2003 domestic ophthalmology sales increased 16.8% to $7.1 million from $6.0 million for the comparable prior year six month period. Domestic ophthalmology sales increased during this period mainly as a result of $1.0 million in increased unit sales of visible laser systems, including the Millennium Endolase module. International ophthalmology sales decreased 2.8% to $2.4 million for the three months ended June 28, 2003 from $2.5 million for the comparable prior year three-month period. The decrease in international ophthalmology sales for this period was due mainly to $0.2 million in decreased unit sales of our infrared laser systems offset by $0.1 million in increased unit sales of our visible laser systems. For the six month periods ended June 28, 2003 and June 29, 2002 international ophthalmology sales remained at the same level at $4.7 million.

Dermatology Sales

Dermatology sales decreased 19.3% to $1.4 million for the three months ended June 28, 2003 from $1.8 million for the three months ended June 29, 2002. Domestic dermatology sales decreased 31% to $1.1 million for the three month period ended June 28, 2003 from $1.5 million for the three month period ended June 29, 2002. The decrease in domestic dermatology sales was due primarily to a $0.3 million decrease in unit sales of products as well as a $0.2 million decrease in average selling prices of dermatology products. International dermatology sales increased from $0.2 million to $0.4 million for the three months ended June 28, 2003. This increase in international dermatology sales for this period was driven mainly by an increase of $0.2 million in unit sales of dermatology products. For the six months ended June 28, 2003 dermatology sales decreased 19.8% to $2.9 million from $3.6 million for the comparable prior year six-month period. Domestic dermatology sales decreased 19.8% to $2.2 million for the six months ended June 28, 2003 from $2.7 million for the comparable prior year six-month period. The decrease in domestic dermatology sales for this period was due mainly to a $0.2 million decrease in unit sales of products as well as to a $0.3 million decrease in average selling prices of dermatology products.

International dermatology sales decreased by $0.2 million to $0.7 million for the six months ended June 28, 2003 from $0.9 million for the comparable prior six-month period. The decrease in international dermatology sales for the six month period ended June 28, 2003 was driven mainly by decreased unit sales of dermatology products.

Gross Profit. Our gross profit was $3.1 million, and 42% as a percentage of net sales, for both of the three month periods ended June 28, 2003 and June 29, 2002. For the six months ended June 28, 2003, gross profit as a percentage of net sales increased slightly to 43.4% as compared to 43.1% for the six months ended June 29, 2002. For the six month period ended June 28, 2003, the increase in gross profit as a percentage of net sales was primarily due to a beneficial impact of 1.0% related to decreased direct product costs and product mix, a net beneficial impact of 0.8% related to lower warranty charges, offset by 0.8% for decreased average selling prices and increased overhead costs of 0.7%. Although increasing competition has continued to result in reduced average selling prices for some of our products, we intend to continue our efforts to reduce inventory and the overall cost of manufacturing and thereby mitigate the impact of price reductions on our gross profit. See "-Factors that May Affect Future Results - If We Cannot Increase Our Sales Volumes, Reduce Our Costs or Introduce Higher Margin Products to Offset Anticipated Reductions in the Average Unit Selling Price of our Products, Our Operating Results May Suffer." Overall, we expect our gross profit margins to continue to fluctuate due to changes in the relative proportions of domestic and international sales, mix of sales of existing products, pricing, product costs and a variety of other factors. See "-Factors That May Affect Future Results - Our Operating Results May Fluctuate from Quarter to Quarter and Year to Year."

Research and Development. For the three months ended June 28, 2003, our research and development expenses of $1.0 million decreased by $0.3 million or 20.7% from $1.3 million for the three months ended June 29, 2002. Likewise, research and development expenses decreased as a percentage of net sales to 14.1% for the three months ended June 28, 2003 from 17.8% for the comparable prior year three-month period. The decrease in research and development expense in absolute dollars and as a percentage of net sales for the three month period ended June 28, 2003 was due primarily to $0.2 million in reduced payroll costs associated with a reduction in force in June 2002 and a $0.1 million decrease in new project spending. For the six month period ended June 28, 2003 research and development expense decreased 19.0% to $2.0 million from $2.5 million for the comparable prior year six month period. As a percentage of net sales research and development expense decreased to 13.6% from 17.1% for the comparable prior year six month period. The decrease in research and development expense in absolute dollars and as a percentage of sales for the six month period ended June 28, 2003 was due primarily to $0.3 million of reduced payroll costs associated with a reduction in force in June 2002, $0.1 million in decreased new project spending and $0.1 million in decreased clinical spending.

Sales, General and Administrative. Our sales, general and administrative expenses increased by 2.1% to $2.6 million for the three months ended June 28, 2003 from $2.5 million for the three months ended June 29, 2002. As a percentage of net sales, sales, general and administrative expenses increased to 34.5% for the three months ended June 28, 2003 from 33.7% for the comparable prior year three-month period. The increase in sales, general and administrative expense in absolute dollars and as a percentage of sales for the three month period ending June 28, 2003 was due primarily to $0.1 million in increased non-commission related selling activities, a $0.1 million net increase in administrative spending, which included consulting, insurance and accounting fees, offset by a $0.1 million decrease in marketing and administrative payroll costs associated with a reduction in force in June 2002. For the six months ended June 28, 2003, sales, general and administrative expenses increased by 4.8% to $5.0 million from $4.8 million for the comparable period in 2002. Sales, general and administrative expenses as a percentage of net sales increased to 34.3% for the six months ended June 28, 2003 from 33.3% for the comparable period in 2002. The increase in absolute dollars and as a percentage of net sales for the six month

period ended June 28, 2003 was due primarily to $0.2 million in increased non-commission related selling activities, a $0.2 million increase in administrative spending associated with consulting, insurance and accounting fees, offset by a $0.2 million decrease in reduced marketing and administrative personnel costs associated with a reduction in force in June 2002.

Interest and Other Income, net. For the three months ended June 28, 2003, we realized net interest and other income of $0.05 million, which was at the same level as the comparable quarter in 2002. For the six months ended June 29, 2003, net interest and other income was $0.1 million and at approximately the same level as the six month period ended June 29, 2002.

Income Taxes. The effective income tax rate for the three month periods ending June 28, 2003 and June 29, 2002 was 32%. The tax rates for these periods was lower than the Federal and State combined statutory rate of 40% because of certain tax benefits associated with tax credits for research and development activities.

LIQUIDITY AND CAPITAL RESOURCES

At June 28, 2003, our primary sources of liquidity included cash and cash equivalents and available-for-sale securities in the aggregate amount of $13.1 million. In addition, we have available $4.0 million under our unsecured line of credit which bears interest at the bank's prime rate and expires in October 2003. As of June 28, 2003, no borrowings were outstanding under this credit facility. We expect to renew the line of credit in October 2003 assuming that the terms continue to be acceptable.

During the six months ended June 28, 2003, we used $1.1 million in cash and cash equivalents. During this period, operating activities provided $1.8 million of cash. Sources of cash from operating activities included a decrease in net accounts receivable of $1.6 million, depreciation of $0.4 million, a decrease in net inventories of $0.4 million and an increase in accounts payable of $0.2 million, offset in part, by uses of cash including a net loss of $0.4 million, an increase in prepaid expenses of $0.3 million and a decrease in accrued expenses of $0.1 million. The decrease in accounts receivable and inventories resulted from focused asset management efforts to increase our cash position. We will continue to place a high priority on our asset management efforts to further increase our cash position. The increase in prepaid expenses related to a prepayment to a supplier of a product that we distribute.

Investing activities used $2.8 million in cash and cash equivalents during the six months ended June 28, 2003, primarily due to net purchases of available for sale securities of $2.7 million and $0.2 million for the acquisition of property and equipment.

Net cash provided by financing activities during the six months ended June 28, 2003 was $21,000 which resulted from the issuance of common stock.

We believe that, based on current estimates, our cash, cash equivalents and available-for-sale securities together with cash generated from operations and our credit facility will be sufficient to meet our anticipated cash requirements

for the next 12 months. However, if the current economic downturn remains protracted, we may need to expend our cash reserves to fund our operations. Our liquidity could be negatively affected by a decline in demand for our products, the need to invest in new product development or reductions in spending by our customers as a result of the continuing economic downturn or other factors. There can be no assurance that additional debt or equity financing will be available when required or, if available, can be secured on terms satisfactory to us. See "-Factors That May Affect Future Results - We May Need Additional Capital, which May Not Be Available, and Our Ability to Grow may be Limited as a Result."

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 28, 2002 which was filed with the Securities and Exchange Commission on March 28, 2003.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. We do not expect the adoption of SFAS No. 150 to have a significant impact on our financial position or results of operations

FACTORS THAT MAY AFFECT FUTURE RESULTS

We Rely on Continued Market Acceptance of Our Existing Products and Any Decline in Sales of Our Existing Products Would Adversely Affect Our Business and Results of Operations. We currently market visible and infrared light semiconductor-based photocoagulator medical laser systems to the ophthalmic market. We also market a visible and infrared light semiconductor-based photocoagulator medical laser system to the dermatology market. We believe that continued and increased sales, if any, of these medical laser systems is dependent upon a number of factors including the following:

- Product performance, features, ease of use, scalability and durability;
- Recommendations and opinions by ophthalmologists, dermatologists, clinicians, plastic surgeons and their associated opinion leaders;
- Price of our products and prices of competing products and technologies;
- Availability of competing products, technologies and alternative treatments;
- Willingness of ophthalmologists and dermatologists to convert to semiconductor-based or infrared laser systems from alternative technologies; and

- Level of reimbursement for treatments administered with our products.

Any significant decline in market acceptance of our products would have a material adverse effect on our business, results of operations and financial condition.

We Face Strong Competition in Our Markets and Expect the Level of Competition to Grow in the Foreseeable Future. Competition in the market for devices used for ophthalmic and dermatology treatments is intense and is expected to increase. This market is also characterized by rapid technological innovation and change and our products could be rendered obsolete as a result of future innovations. Our competitive position depends on a number of factors including product performance, characteristics and functionality, ease of use, scalability, durability and cost. Our principal competitors in ophthalmology are Lumenis Ltd., Nidek, Inc., Carl Zeiss, Inc., Alcon Inc. and Quantel. All of these companies currently offer a competitive semiconductor-based laser system in ophthalmology. Our principal competitors in dermatology are Lumenis Ltd., Laserscope, Candela Corporation and Altus Medical Inc and Palomar Technologies Some competitors have substantially greater financial, engineering, product development, manufacturing, marketing and technical resources than we do. Some companies also have greater name recognition than we do and long-standing customer relationships. In addition to other companies that manufacture photocoagulators, we compete with pharmaceuticals, other technologies and other surgical techniques. Some medical companies, academic and research institutions, or others, may develop new technologies or therapies that are more effective in treating conditions targeted by us or are less expensive than our current or future products. Any such developments could have a material adverse effect on our business, financial condition and results of operations.

Our Future Success Depends on Our Ability to Develop and Successfully Introduce New Products and New Applications. Our future success is dependent upon, among other factors, our ability to develop, obtain regulatory approval of, manufacture and market new products. In October 2002, we announced the introduction of a number of new products, specifically the OcuLight Symphony multi-wavelength laser delivery system, an expanded EndoProbe product line and a 5 mm Large Spot Slit Lamp Adapter. We also announced the Millennium Endolase module, which we manufacture to be included in Bausch & Lomb's Millennium Microsurgical System. Successful commercialization of these new products and new applications will require that we effectively transfer production processes from research and development to manufacturing and effectively coordinate with our suppliers. In addition, we must successfully sell and achieve market acceptance of new products and applications and enhanced versions of existing products. The extent of, and rate at which, market acceptance and penetration are achieved by future products is a function of many variables. These variables include price, safety, efficacy, reliability, marketing and sales efforts, the development of new applications for these products, the availability of third-party reimbursement of procedures using our new products, the existence of competing products and general economic conditions affecting purchasing patterns. Our ability to market and sell new products may also be subject to government regulation, including approval by the United States Food and Drug Administration, or FDA, and foreign government agencies. Any failure in our ability to successfully develop and introduce new products or enhanced versions of existing products and achieve market acceptance of new products and new applications could have a material adverse effect on our operating results and would cause our net revenues to decline.

Our Business Has Been Adversely Impacted By the Worldwide Economic Slowdown and Related Uncertainties. Weaker economic conditions worldwide have contributed to the continued slowdown in our business in general. This has resulted in reduced demand for some of our products, excess manufacturing capacity under current market conditions and higher overhead costs, as a percentage of revenue. In particular, demand for our dermatology products, such

as the Apex 800, has been impacted. Recent political and social turmoil in many parts of the world may continue to adversely impact global economic conditions. These political, social and economic conditions and related economic uncertainties make it difficult for us, our customers and our distributors to forecast orders and sales of our products and, accordingly, plan future business activities. This level of uncertainty strongly challenges our ability to operate profitably or grow our business. If the economic or market conditions continue to further deteriorate, this may have a material adverse impact on our financial position, results of operation and cash flows.

If We Cannot Increase Our Sales Volumes, Reduce Our Costs or Introduce Higher Margin Products to Offset Anticipated Reductions in the Average Unit Price of Our Products, Our operating Results May Suffer. We have experienced declines in the average unit price of our products and expect to continue to suffer from declines in the future. The average unit price of our products may decrease in the future in response to changes in product mix, competitive pricing pressures, new product introductions by us or our competitors or other factors. If we are unable to offset the anticipated decrease in our average selling prices by increasing our sales volumes, our net revenues will decline. In addition, to maintain our gross margins, we must continue to reduce the manufacturing cost of our products and contain our operating costs. We will continue to place a high priority on our cost containment and asset management efforts. Additional measures to contain costs and reduce expenses may be undertaken if revenues and market conditions do not improve. Further, should average unit prices of our current products decline, we must develop and introduce new products and product enhancements with higher margins. If we cannot maintain our gross margins, our business could be seriously harmed, particularly if the average selling price of our products decreases significantly without a corresponding increase in sales. If we are unable to contain costs and manage our assets, our operating results could be harmed and our liquidity and capital resources adversely affected.

We Face Risks of Manufacturing. The manufacture of our infrared and visible light photocoagulators and the related delivery devices is a highly complex and precise process. We assemble critical subassemblies and all of our final products at our facility in Mountain View, California. We may experience manufacturing difficulties, quality control issues or assembly constraints, particularly with regard to new products that we may introduce. We may not be able to manufacture sufficient quantities of our products, which may require that we qualify other manufacturers for our products. We do not currently intend to utilize any external manufacturers for our products. Furthermore, we may experience delays, disruptions, capacity constraints or quality control problems in our manufacturing operations and, as a result, product shipments to our customers could be delayed, which would negatively impact our net revenues.

We Depend on Sole Source or Limited Source Suppliers. We rely on third parties to manufacture substantially all of the components used in our products, including optics, laser diodes and crystals. We have some long term or volume purchase agreements with our suppliers and currently purchase components on a purchase order basis. Some of our suppliers and manufacturers are sole or limited source. In addition, some of these suppliers are relatively small private companies that may discontinue their operations at any time. There are risks associated with the use of independent manufacturers, including the following:

- unavailability of, shortages or limitations on the ability to obtain supplies of components in the quantities that we require;

- delays in delivery or failure of suppliers to deliver critical components on the dates we require;

- failure of suppliers to manufacture components to our specifications, and potentially reduced quality; and

- inability to obtain components at acceptable prices.

Our business and operating results may suffer from the lack of alternative sources of supply for critical sole and limited source components. The process of qualifying suppliers is complex, requiring extensive testing and interoperability with our products, and may be lengthy, particularly as new products are introduced. New suppliers would have to be educated in our production processes. In addition, the use of alternate components may require design alterations to our products and additional product testing under FDA and relevant foreign regulatory agency guidelines, which may delay sales and increase product costs. Any failures by our vendors to adequately supply limited and sole source components may impair our ability to offer our existing products, delay the submission of new products for regulatory approval and market introduction, materially harm our business and financial condition and cause our stock price to decline. Establishing our own capabilities to manufacture these components would be expensive and could significantly decrease our profit margins. We do not currently intend to manufacture any of these components. Our business, results of operations and financial condition would be adversely affected if we are unable to continue to obtain components in the quantity and quality desired and at the prices we have budgeted.

We Depend on International Sales for a Significant Portion of Our Operating Results. We derive, and expect to continue to derive, a large portion of our revenue from international sales. For the three months ended June 28, 2003, our international sales were $2.8million or 37.1% of total sales. We anticipate that international sales will continue to account for a significant portion of our revenues in the foreseeable future. None of our international revenues and costs have been denominated in foreign currencies. As a result, an increase in the value of the U.S. dollar relative to foreign currencies makes our products more expensive and thus less competitive in foreign markets. The factors stated above could have a material adverse effect on our business, financial condition or results of operations. Our international operations and sales are subject to a number of risks including:

- longer accounts receivable collection periods;

- impact of recessions in economies outside of the United States;

- foreign certification requirements, including continued ability to use the "CE" mark in Europe;

- reduced or limited protections of intellectual property rights in jurisdictions outside the United States;

- potentially adverse tax consequences; and

- multiple protectionist, adverse and changing foreign governmental laws and regulations.

Any one or more of these factors stated above could have a material adverse effect on our business, financial condition or results of operations. For additional discussion about our foreign currency risks, see Item 3, "Quantitative and Qualitative Disclosures About Market Risk."

Our Operating Results May be Adversely Affected by Changes in Third Party Coverage and Reimbursement Policies and any Uncertainty Regarding Healthcare Reform Measures. Our ophthalmology products are typically purchased by doctors, clinics, hospitals and other users, which bill various third-party payers, such

as governmental programs and private insurance plans, for the health care services provided to their patients. Third-party payers are increasingly scrutinizing and challenging the coverage of new products and the level of reimbursement for covered products. Doctors, clinics, hospitals and other users of our products may not obtain adequate reimbursement for use of our products from third-party payers. While we believe that the laser procedures using our products have generally been reimbursed, payers may deny coverage and reimbursement for our products if they determine that the device was not reasonable and necessary for the purpose used, was investigational or was not cost-effective. In addition, third party payers may not initiate coverage of new procedures using our products for a significant period. For example, in September 2000, the Center for Medicare and Medicaid Services, or CMS, advised that claims for reimbursement for certain age related macular degeneration (AMD) procedures which use our OcuLight SLx laser system, could be submitted for reimbursement, with coverage and payment to be determined by the local medical carriers at their discretion. To date, only three carriers-Noridian Mutual Insurance, which is the CMS Part B Carrier for Alaska, Arizona, Colorado, Hawaii, Iowa, Nevada, North Dakota, Oregon, South Dakota, Washington and Wyoming; Cigna, which is the carrier for North Carolina, Tennessee and Idaho; and National Heritage Insurance, which is the carrier for California-have made coverage decisions approving the use of the Transpupillary Thermotherapy, or TTT protocol for the treatment of wet AMD. No other carriers have approved reimbursement of such AMD procedures using the OcuLight SLx, and domestic sales of the OcuLight SLx laser system continue to be limited until more local medical carriers reimburse for performing such AMD procedures or until CMS advises that claims for these procedures may be submitted directly to CMS at the national level.

Changes in government legislation or regulation or in private third-party payers' policies toward reimbursement for procedures employing our products may prohibit adequate reimbursement. There have been a number of legislative and regulatory proposals to change the healthcare system, reduce the costs of healthcare and change medical reimbursement policies. Doctors, clinics, hospitals and other users of our products may decline to purchase our products to the extent there is uncertainty regarding reimbursement of medical procedures using our products and any healthcare reform measures. Further proposed legislation, regulation and policy changes affecting third party reimbursement are likely. We are unable to predict what legislation or regulation, if any, relating to the health care industry or third-party coverage and reimbursement may be enacted in the future, or what effect such legislation or regulation may have on us. However, denial of coverage and reimbursement of our products would have a material adverse effect on our business, results of operations and financial condition.

We are Dependent on the Successful Outcome of Clinical Trials of Our Products and New Applications Using Our Products. Our success will depend in part on the successful outcome of clinical trials of our products and new applications using our products. Clinical trials are long, expensive and uncertain processes. We are currently supporting several ongoing clinical trials, including, for example, the TTT4CNV clinical trial. The TTT4CNV clinical trial is a multi-center, prospective, placebo-controlled, randomized trial conducted at 22 centers in the United States. This clinical trial is a post marketing study performed within the FDA cleared indications of the OcuLight SLx and is being conducted to determine whether TTT laser treatment using our OcuLight SLx infrared laser system and Large Spot Slit Lamp Adapter can reduce the risk of vision loss for patients with wet AMD. In order to successfully commercialize the use of our OcuLight SLx for TTT procedures, we must be able to, among other things, demonstrate with substantial evidence from well-controlled clinical trials where TTT procedures using the Oculight SLx product are both safe and effective. This process may take a number of years. In March 2003, we announced that the Executive Committee for the TTT4CNV clinical trial accepted the recommendations of the independent Data and Safety Monitoring Committee that an adequate number of patients were enrolled to detect a clinically relevant difference between outcomes in TTT-treated eyes and patients

not being treated. We cannot assure you that results from the TTT4CNV clinical trial will prove to be successful. If the future results of the TTT4CNV clinical trial or any other clinical trial regarding our products fails to validate the safety and effectiveness of treatments using our products, our ability to generate revenues from new products or new applications using our products would be adversely affected and our business would be harmed.

Our Operating Result May Fluctuate from Quarter to Quarter and Year to Year. Our sales and operating results may vary significantly from quarter to quarter and from year to year in the future. Our operating results are affected by a number of factors, many of which are beyond our control. Factors contributing to these fluctuations include the following:

- General economic uncertainties and political concerns;

- The timing of the introduction and market acceptance of new products, product enhancements and new applications;

- Changes in demand for our existing line of dermatology and ophthalmic products;

- The cost and availability of components and subassemblies, including the ability of our sole or limited source suppliers to deliver components at the times and prices that we have planned;

- Fluctuations in our product mix between dermatology and ophthalmic products and foreign and domestic sales;

- The effect of regulatory approvals and changes in domestic and foreign regulatory requirements;

- Introduction of new products, product enhancements and new applications by our competitors, entry of new competitors into our markets, pricing pressures and other competitive factors;

- Our long and highly variable sales cycle;

- Decreases in the prices at which we can sell our products;

- Changes in customers' or potential customers' budgets as a result of, among other things, reimbursement policies of government programs and private insurers for treatments that use our products; and

- Increased product development costs.

In addition to these factors, our quarterly results have been, and are expected to continue to be, affected by seasonal factors.

Our expense levels are based, in part, on expected future sales. If sales levels in a particular quarter do not meet expectations, we may be unable to adjust operating expenses quickly enough to compensate for the shortfall of sales, and our results of operations may be adversely affected. In addition, we have historically made a significant portion of each quarter's product shipments near the end of the quarter. If that pattern continues, any delays in shipment of products could have a material adverse effect on results of operations for such quarter. Due to these and other factors, we believe that quarter to

quarter and year to year comparisons of our past operating results may not be meaningful. You should not rely on our results for any quarter or year as an indication of our future performance. Our operating results in future quarters and years may be below expectations, which would likely cause the price of our common stock to fall.

We Rely on Our Direct Sales Force and Network of International Distributors to Sell Our Products and any Failure to Maintain Our Direct Sales Force and Distributor Relationships Could Harm Our Business. Our ability to sell our products and generate revenue depends upon our direct sales force within the United States and relationships with independent distributors outside the United States. As of June 28, 2003 our direct sales force consisted of 15 employees and we maintained relationships with 50 independent distributors internationally selling our products into 107 countries. We generally grant our distributors exclusive territories for the sale of our products in specified countries. The amount and timing of resources dedicated by our distributors to the sales of our products is not within our control. Our international sales are entirely dependent on the efforts of these third parties. If any distributor breaches or fails to generate sales of our products, we may be forced to replace the distributor and our ability to sell our products into that exclusive sales territory would be adversely affected.

We do not have any long-term employment contracts with the members of our direct sales force. We may be unable to replace our direct sales force personnel with individuals of equivalent technical expertise and qualifications, which may limit our revenues and our ability to maintain market share. The loss of the services of these key personnel would harm our business. Similarly, our distributorship agreements are generally terminable at will by either party and distributors may terminate their relationships with us, which would affect our international sales and results of operations.

We Depend on Collaborative Relationships to Develop, Introduce and Market New Products, Product Enhancements and New Applications. We have entered into collaborative relationships with academic medical centers and physicians in connection with the research and development and clinical testing of our products. We plan to collaborate with third parties to develop and commercialize existing and new products. In October 2002, we announced our collaboration with Bausch & Lomb to design and manufacture a solid-state green wavelength (532) nm) laser photocoagulator module, called the Millennium Endolase module. The Millennium Endolase module is designed to be a component of Bausch & Lomb's ophthalmic surgical suite product offering and is not expected to be sold as a stand-alone product. Sales of the Millennium Endolase module are dependent upon the actual order rate from and shipment rate to Bausch & Lomb, which depends on the efforts of our partner and is beyond our control. We cannot assure you that our relationship with Bausch & Lomb will result in further sales of our Millennium Endolase module. Our collaborators may not pursue further development and commercialization of products resulting from collaborations with us or may not devote sufficient resources to the marketing and sale of such products. Traditionally, our reliance on others for clinical development, manufacturing and distribution of our products may result in unforeseen problems. Further, our collaborative partners may develop or pursue alternative technologies either on their own or in collaboration with others. If a collaborator elects to terminate its agreement with us, our ability to develop, introduce, market and sell the product may be significantly impaired and we may be forced to discontinue altogether the product resulting from the collaboration. We may not be able to negotiate alternative collaboration agreements on acceptable terms, if at all. The failure of any current or future collaboration efforts could have a material adverse effect on our ability to introduce new products or applications and therefore could have a material adverse effect on our business, results of operations and financial condition.

We Rely on Patents and Proprietary Rights to Protect our Intellectual Property and Business. Our success and ability to compete is dependent in part

upon our proprietary information. We rely on a combination of patents, trade secrets, copyright and trademark laws, nondisclosure and other contractual agreements and technical measures to protect our intellectual property rights. We file patent applications to protect technology, inventions and improvements that are significant to the development of our business. We have been issued fourteen United States patents and two foreign patents on the technologies related to our products and processes. We have approximately five pending patent applications in the United States and six foreign pending patent applications that have been filed. Our patent applications may not be approved. Any patents granted now or in the future may offer only limited protection against potential infringement and development by our competitors of competing products. Moreover, our competitors, many of which have substantial resources and have made substantial investments in competing technologies, may seek to apply for and obtain patents that will prevent, limit or interfere with our ability to make, use or sell our products either in the United States or in international markets.

In addition to patents, we rely on trade secrets and proprietary know-how which we seek to protect, in part, through proprietary information agreements with employees, consultants and other parties. Our proprietary information agreements with our employees and consultants contain industry standard provisions requiring such individuals to assign to us without additional consideration any inventions conceived or reduced to practice by them while employed or retained by us, subject to customary exceptions. Proprietary information agreements with employees, consultants and others may be breached, and we may not have adequate remedies for any breach. Also, our trade secrets may become known to or independently developed by competitors.

The laser and medical device industry is characterized by frequent litigation regarding patent and other intellectual property rights. Companies in the medical device industry have employed intellectual property litigation to gain a competitive advantage. Numerous patents are held by others, including academic institutions and our competitors. Until recently patent applications were maintained in secrecy in the United States until the patents issued. Patent applications filed in the United States after November 2000 generally will be published eighteen months after the filing date. However, since patent applications continue to be maintained in secrecy for at least some period of time, both within the United States and with regards to international patent applications, we cannot assure you that our technology does not infringe any patents or patent applications held by third parties. We have, from time to time, been notified of, or have otherwise been made aware of, claims that we may be infringing upon patents or other proprietary intellectual property owned by others. If it appears necessary or desirable, we may seek licenses under such patents or proprietary intellectual property. Although patent holders commonly offer such licenses, licenses under such patents or intellectual property may not be offered or the terms of any offered licenses may not be reasonable.

Any claims, with or without merit, and regardless of whether we are successful on the merits, would be time-consuming, result in costly litigation and diversion of technical and management personnel, cause shipment delays or require us to develop noninfringing technology or to enter into royalty or licensing agreements. An adverse determination in a judicial or administrative proceeding and failure to obtain necessary licenses or develop alternate technologies could prevent us from manufacturing and selling our products, which would have a material adverse effect on our business, results of operations and financial condition.

We Are Subject To Government Regulation Which May Cause Us to Delay or Withdraw the Introduction of New Products or New Applications for Our Products. The medical devices that we market and manufacture are subject to extensive regulation by the FDA and by foreign and state governments. Under the Federal Food, Drug and Cosmetic Act and the related regulations, the FDA regulates the

design, development, clinical testing, manufacture, labeling, sale, distribution and promotion of medical devices. Before a new device can be introduced into the market, the product must undergo rigorous testing and an extensive regulatory approval process implemented by the FDA under federal law. A device manufacturer must obtain market clearance through either the 510(k) premarket notification process or the lengthier premarket approval application process. Depending upon the type, complexity and novelty of the device and the nature of the disease or disorder to be treated, the FDA process can take several years, require extensive clinical testing and result in significant expenditures. Even if regulatory approval is obtained, later discovery of previously unknown safety issues may result in restrictions on the product, including withdrawal of the product from the market. Other countries also have extensive regulations regarding clinical trials and testing prior to new product introductions. Our failure to obtain government approvals or any delays in receipt of such approvals would have a material adverse effect on our business, results of operations and financial condition.

The FDA imposes additional regulations on manufacturers of approved medical devices. We are required to comply with the applicable FDA good manufacturing practice regulations, which include quality control and quality assurance requirements, as well as maintenance of records and documentation. Our manufacturing facilities are subject to ongoing periodic inspections by the FDA and corresponding state agencies, including unannounced inspections, and must be licensed as part of the product approval process before being utilized for commercial manufacturing. Noncompliance with the applicable requirements can result in, among other things, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, withdrawal of marketing approvals, and criminal prosecution. The FDA also has the authority to request repair, replacement or refund of the cost of any device we manufacture or distribute. Any of these actions by the FDA would materially and adversely affect our ability to continue operating our business and the results of our operations.

In addition, we are also subject to varying product standards, packaging requirements, labeling requirements, tariff regulations, duties and tax requirements. As a result of our sales in Europe, we are required to have all products "CE" registered, an international symbol affixed to all products demonstrating compliance with the European Medical Device Directive and all applicable standards. While currently all of our released IRIS Medical and IRIDERM products are products are CE registered, continued registration is based on successful review of the process by our European Registrar during their annual audit. Any loss of registration would have a material adverse effect on our business, results of operations and financial condition.

If Product Liability Claims are Successfully Asserted Against Us, We may Incur Substantial Liabilities That May Adversely Affect Our Business or Results of Operations. We may be subject to product liability claims in the future. Our products are highly complex and some are used to treat extremely delicate eye tissue and skin conditions on and near a patient's face. Although we maintain product liability insurance with coverage limits of $11.0 million per occurrence and an annual aggregate maximum of $12.0 million, our coverage from our insurance policies may not be adequate. Product liability insurance is expensive. We might not be able to obtain product liability insurance in the future on acceptable terms or in sufficient amounts to protect us, if at all. A successful claim brought against us in excess of our insurance coverage could have a material adverse effect on our business, results of operations and financial condition.

If We Fail to Accurately Forecast Demand For Our Product and Component Requirements For the Manufacture of Our Product, We Could Incur Additional Costs or Experience Manufacturing Delays and May Experience Lost Sales or Significant Inventory Carrying Costs. We use quarterly and annual forecasts based primarily on our anticipated product orders to plan our manufacturing efforts and determine our requirements for components and materials. It is very important

that we accurately predict both the demand for our product and the lead times required to obtain the necessary components and materials. Lead times for components vary significantly and depend on numerous factors, including the specific supplier, the size of the order, contract terms and current market demand for such components. If we overestimate the demand for our product, we may have excess inventory, which would increase our costs. If we underestimate demand for our product and, consequently, our component and materials requirements, we may have inadequate inventory, which could interrupt our manufacturing, delay delivery of our product to our customers and result in the loss of customer sales. Any of these occurrences would negatively impact our business and operating results.

If We Fail to Manage Growth Effectively, Our Business Could Be Disrupted Which Could Harm Our Operating Results. We have experienced, and may continue to experience growth in our business. We have made and, although we are currently in a global economic downturn, expect to continue to make significant investments to enable our future growth through, among other things, new product development and clinical trials for new applications and products. We must also be prepared to expand our work force and to train, motivate and manage additional employees as the need for additional personnel arises. Our personnel, systems, procedures and controls may not be adequate to support our future operations. Any failure to effectively manage future growth could have a material adverse effect on our business, results of operations and financial condition.

If Our Facilities Were To Experience Catastrophic Loss, Our Operations Would Be Seriously Harmed. Our facilities could be subject to catastrophic loss such as fire, flood or earthquake. All of our research and development activities, manufacturing, our corporate headquarters and other critical business operations are located near major earthquake faults in Mountain View, California. Any such loss at any of our facilities could disrupt our operations, delay production, shipments and revenue and result in large expense to repair and replace our facilities.

We May Need Additional Capital, which May Not Be Available, and Our Ability to Grow May be Limited as a Result. We believe that our existing cash balances, available-for-sale securities, credit facilities and cash flow expected to be generated from future operations will be sufficient to meet our capital requirements at least through the next 12 months. However, we may be required, or could elect, to seek additional funding prior to that time. The development and marketing of new products and associated support personnel requires a significant commitment of resources. If cash from available sources is insufficient, we may need additional capital, which may not be available on favorable terms, if at all. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. Any inability to raise additional capital when we require it would seriously harm our business.

Our Stock Price Has Been and May Continue to be Volatile and an Investment in Our Common Stock Could Suffer a Decline in Value. The trading price of our common stock has been subject to wide fluctuations in response to a variety of factors, some of which are beyond our control, including quarterly variations in our operating results, announcements by us or our competitors of new products or of significant clinical achievements, changes in market valuations of other similar companies in our industry and general market conditions. We receive only limited attention by securities analysts and may experience an imbalance between supply and demand for our common stock resulting from low trading volumes. In addition, the stock market has experienced extreme volatility in the last few years that has often been unrelated to the performance of particular companies. These broad market fluctuations could have a significant impact on the market price of our common stock regardless of our performance.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

QUANTITATIVE DISCLOSURES

We are exposed to market risks inherent in our operations, primarily related to interest rate risk and currency risk. These risks arise from transactions and operations entered into in the normal course of business. We do not use derivatives to alter the interest characteristics of our marketable securities or our debt instruments. We have no holdings of derivative or commodity instruments.

Interest Rate Risk. We are subject to interest rate risks on cash and cash equivalents, available-for-sale marketable securities and any future financing requirements. Interest rate risks related to marketable securities are managed by managing maturities in our marketable securities portfolio. We have no long-term debt as of June 28, 2003.

The fair value of our investment portfolio or related income would not be significantly impacted by changes in interest rates since the marketable securities maturities do not exceed fiscal year 2002 and the interest rates are primarily fixed.

QUALITATIVE DISCLOSURES

Interest Rate Risk. Our primary interest rate risk exposures relate to:

- The available-for-sale securities will fall in value if market interest rates increase.

- The impact of interest rate movements on our ability to obtain adequate financing to fund future operations.

We have the ability to hold at least a portion of the fixed income investments until maturity and therefore would not expect the operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates on its short- and long-term marketable securities portfolio.

Management evaluates our financial position on an ongoing basis.

Currency Rate Risk.

We do not hedge any balance sheet exposures against future movements in foreign exchange rates. The exposure related to currency rate movements would not have a material impact on future net income or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"), our President and Chief Executive Officer, who is our principal executive officer, and our Chief Financial Officer and Senior Vice President, Finance and Administration, who is our principal financial officer, performed an evaluation

of the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-14(c) and 15(d)-14(c) of the Securities and Exchange Act of 1934, as amended). Based on that evaluation, our President and Chief Executive Officer and our Chief Financial Officer and Senior Vice President Finance and Administration concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that material information about IRIDEX Corporation and our consolidated subsidiaries is made known to us by others within those entities, particularly during the period in which this quarterly report was being prepared.

CHANGES IN INTERNAL CONTROLS

There have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the Evaluation Date, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS
None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

Our Annual Meeting of Stockholders was held on June 4, 2003 in Mountain View, California. Of the 6,919,285 shares outstanding as of the record date, 6,386,168 were present or represented by proxy at the meeting. The results of the voting on the matters submitted to the stockholders are as follows:

1. To elect six (6) directors to serve for the ensuing year or until their successors are duly elected and qualified.

Name	Votes For	Votes Withheld
Theodore Boutacoff	5,864,360	521,808
James L. Donovan	5,864,360	521,808
John M. Nehra	5,903,060	483,108
Donald L. Hammond	5,963,660	422,508
Joshua Makower, M.D.	5,963,660	422,508
Robert K. Anderson	5,393,329	992,839

2. To approve an amendment to the 1998 Stock Plan to increase the number of shares of common stock reserved for issuance thereunder from 1,230,000 shares to 1,500,000 shares.

Votes for:	2,721,044
Votes against:	1,591,431
Votes abstaining:	20,275

3. To approve an amendment to the 1995 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance thereunder from 370,000 shares to 430,000 shares.

Votes for:	3,487,364
Votes against:	828,611
Votes abstaining:	16,775

4. To ratify the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending January 3, 2004.

Votes for:	6,374,988
Votes against:	6,745
Votes abstaining:	4,435

ITEM 5. OTHER INFORMATION

In accordance with Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002, the Registrant is responsible for disclosing the non-audit services approved by the Company's Audit Committee to be performed by PricewaterhouseCoopers LLP, the Company's independent auditor. Non-audit services are defined in the law as services other than those provided in connection with an audit or a review of the financial statements of the Company. The additional engagement of PricewaterhouseCoopers LLP for the matters listed below are each considered by the Company to be audit-related services that are closely related to the financial audit process. During the quarterly period covered by this filing, the Audit Committee approved the additional engagements of PricewaterhouseCoopers LLP for certain tax matter consultations and for the review of the Company's filings under the Securities Act of 1933, as amended.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 Change of Control Agreement, effective as of May 19, 2003, entered into by and between the Registrant and Larry Tannenbaum, Chief Financial Officer

99.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

The Company filed a report on Form 8-K on May 13, 2003 relating to a press release regarding the Company's financial results for the fiscal quarter ended March 29, 2003.

The Company filed a report on Form 8-K on July 22, 2003 relating to a press release regarding the Company's financial results for the fiscal quarter ended June 28, 2003.

SIGNATURE

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

IRIDEX Corporation
(Registrant)

Date: August 12, 2003

By: /s/ Larry Tannenbaum
Larry Tannenbaum
Chief Financial Officer, Senior Vice President of Finance and Administration and Secretary
(Principal Financial and Accounting Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 13(A) OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934 AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Theodore A. Boutacoff, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IRIDEX Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 12, 2003

By: /s/ Theodore A. Boutacoff
Name: Theodore A. Boutacoff
Title: President and Chief Executive Officer
(Principal Executive Officer)

I, Larry Tannenbaum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IRIDEX Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 12, 2003

By: /s/ Larry Tannenbaum
Name: Larry Tannenbaum
Title: Chief Financial Officer, Senior Vice President of Finance and Administration and Secretary
(Principal Financial and Accounting Officer)

IRIDEX CORPORATION

CHANGE OF CONTROL AGREEMENT

This Change of Control Agreement (the "Agreement"), effective as of May 19, 2003 (the "Effective Date"), is made and entered into by and between Larry Tannenbaum (the "Employee") and IRIDEX Corporation, a Delaware corporation (the "Company"). Certain capitalized terms used in this Agreement are defined in Section 1 below.

RECITALS

A. The Company has named Employee as the Company's Chief Financial Officer and Senior Vice President, Finance and Administration effective as of the Effective Date.

B. It is expected that the Company from time to time will consider the possibility of a Change of Control (as defined below). The Board of Directors of the Company (the "Board") recognizes that such consideration can be a distraction to the Employee and can cause the Employee to consider alternative employment opportunities.

C. The Board believes that it is in the best interests of the Company and its stockholders to provide the Employee with an incentive to continue his employment and to maximize the value of the Company upon a Change of Control for the benefit of its stockholders.

D. In order to provide the Employee with enhanced financial security and sufficient encouragement to remain with the Company notwithstanding the possibility of a Change of Control, the Board believes that it is imperative to provide the Employee with certain benefits upon the Employee's Involuntary Termination (as defined below) of employment following a Change of Control.

AGREEMENT

NOW THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the parties agree as follows:

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

(a) Cause. "Cause" shall mean (i) any act of personal dishonesty taken by the Employee, which is intended to result in substantial personal enrichment of the Employee, (ii) the Employee's conviction of or plea of nolo contendere to a felony or a material violation of federal or state law by Employee that the Board reasonably believes has had or will have a detrimental effect on the Company's reputation or business, (iii) an intentional and reckless act by the Employee that constitutes misconduct or is injurious to the Company, or (iv) continued failure by the Employee to perform Employee's duties and obligations to the Company at any time after there has been delivered to the Employee a written demand for performance from the Board of Directors or the Chief

Executive Officer, which describes the basis for the Company's belief that the Employee has not previously performed his duties or met his obligations as an Employee.

(b) Change of Control. "Change of Control" shall mean the occurrence of any of the following events:

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

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

(iii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becoming the

"beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company's then outstanding voting securities; or

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

(c) Involuntary Termination. "Involuntary Termination" shall mean:

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

(ii) without the Employee's express written consent, a material reduction, of the facilities and perquisites (including office space and location) available to the Employee immediately prior to the Change of Control; provided, however, Employee will be deemed not to
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have suffered an Involuntary Termination in the event similar such reductions occur concurrently with and apply to the Company's senior management, including the Company's Chief Executive Officer and other Senior Vice Presidents; or

(iii) without the Employee's express written consent, a reduction of the Employee's base annual salary by fifteen percent (15%) or more as compared to the baseline equal to the Employee's base annual salary in effect immediately prior to the Change of Control; provided, however, Employee will be deemed not to have suffered an Involuntary Termination in the event similar such reductions occur concurrently and apply to the Company's senior management, including the Company's Chief Executive Officer and other Senior Vice Presidents; or

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

(v) without the Employee's express written consent, the relocation of the Employee to a facility or a location more than twenty-five (25) miles from his current location; provided, however, Employee will be deemed not to have suffered an Involuntary Termination in the event similar such relocation occurs concurrently with and applies to the Company's senior management, including the Company's Chief Executive Officer and other Senior Vice Presidents; or

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

(d) Successor. "Successor" shall mean any corporation or other entity that acquires all or substantially all of the assets or business of the Company, whether directly or indirectly and whether by purchase, lease, merger, reverse triangular merger, consolidation, liquidation or otherwise. For all purposes under this Agreement, the term "Company" shall include any Successor to the Company's business and/or assets that executes and delivers the assumption agreement described in Section 6(a) or which becomes bound by the terms of this Agreement by operation of law to all or substantially all of the Company's business and/or assets.

(e) Termination Date. "Termination Date" shall mean the effective date of any notice of termination delivered by one party to the other hereunder.

2. Term of Agreement. This Agreement shall terminate upon the date that all obligations of the parties hereto under this Agreement have been satisfied or, if earlier, on such date, which is prior to a Change of Control, that the Employee is no longer employed by the Company.

3. At-Will Employment. The Company and the Employee acknowledge that the Employee's employment is and shall continue to be at-will, as defined under applicable law and that nothing in this Agreement shall affect in any manner whatsoever the right or power of the Employee or the Company, or any Successor, to terminate Employee's employment, for any reason. This

Agreement does not constitute an express or implied promise of continued employment for any reason. If the Employee's employment terminates for any reason, the Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, under law, or as may otherwise be established under the Company's then existing employee benefit plans or policies at the time of termination.

4. Benefits.

(a) Termination Following A Change of Control. If the Employee's employment with the Company is terminated either (i) as a result of an actual termination by the Company or its Successor other than for Cause or (ii) as a result of an Involuntary Termination and (i) or (ii) occur at any time on or prior to nine (9) month anniversary after a Change of Control, then, subject to Employee's executing the Company's form of severance and release agreement, (A) fifty percent (50%) of the then remaining unvested shares exercisable pursuant to outstanding stock options granted by the Company to the Employee prior to the Change of Control shall become vested and exercisable as of such date and (B) fifty percent (50%) of the then remaining unvested stock that is subject to a right of repurchase by the Company (or its Successor) that was purchased or granted prior to the Change of Control shall have such right of repurchase lapse.

(b) Termination Apart from a Change of Control. If the Employee's employment with the Company is terminated either before a Change of Control or after the nine (9) month period following a Change of Control, whether the result of an actual termination for any reason or an Involuntary Termination, then the Employee shall not be entitled to receive the benefits hereunder, but may be eligible for those benefits, if any, as may then be established under the Company's or the Successor's then existing severance and benefits plans and policies at the time of such termination, subject to Employee's executing the Company's form of severance and release agreement.

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

(a) delivered in full, or

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

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by the Employee on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code.

Unless the Company and the Employee otherwise agree in writing, any determination required under this Section shall be made in writing by the Company's independent public accountants (the "Accountants"), whose determination shall be conclusive and binding upon the Employee and the Company for all purposes. For purposes of making the calculations required by this Section, the Accountants may make reasonable assumptions and approximations concerning

applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and the Employee shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section.

6. Successors.

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

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

7. Notices.

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

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

IRIDEX Corporation
Attn: Chief Executive Officer
1212 Terra Bella Avenue
Mountain View, California 94043
Phone: (650) 940-4700
Fax: (650) 940-4710

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

(c) Notice of Termination. Any termination by the Company for Cause or by the Employee as a result of a voluntary resignation or an Involuntary Termination shall be communicated by a notice of termination to the other party hereto given in accordance with this

Section. Such notice shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and shall specify the Termination Date (which shall be not more than 30 days after the deemed delivery of such notice). The failure by the Company to include in the notice any fact or circumstance which contributes to a showing of Cause shall not preclude the Company from asserting such fact or circumstance. The failure by the Employee to include in the notice any fact or circumstance which contributes to a showing of Involuntary Termination shall not waive any right of the Employee hereunder or preclude the Employee from asserting such fact or circumstance in enforcing his rights hereunder.

8. Arbitration.

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

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

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

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

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

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

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

9. Miscellaneous Provisions.

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

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

(c) Integration. This Agreement and any outstanding stock option agreements and restricted stock purchase agreements referenced herein represent the entire agreement and understanding between the parties as to the subject matter herein and supersede all prior or contemporaneous agreements, whether written or oral, with respect to this Agreement and any stock option agreement or restricted stock purchase agreement.

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

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

(f) No Representations. Employee represents that he has had the opportunity to consult with an attorney of his choice, and has carefully read and understands the scope and effect of

the provisions of this Agreement. Employee further represents that he has not relied upon any representations or statements made by the Company or anyone else regarding his employment with the Company which are not specifically set forth in this Agreement.

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

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

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

IRIDEX CORPORATION:

By: /s/ Theodore A. Boutacoff

Theodore A. Boutacoff
President and Chief Executive Officer

EMPLOYEE:

/s/ Larry Tannenbaum

Larry Tannenbaum

EXHIBIT 99.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Theodore A. Boutacoff, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of IRIDEX Corporation on Form 10-Q for the fiscal quarter ended June 28, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of IRIDEX Corporation.

By: /s/ Theodore A. Boutacoff

Name: Theodore A. Boutacoff
Title: Chief Executive Officer

I, Larry Tannenbaum, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of IRIDEX Corporation on Form 10-Q for the fiscal quarter ended June 28, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of IRIDEX Corporation.

By: /s/ Larry Tannenbaum

Name: Larry Tannenbaum
Title: Chief Financial Officer, Senior Vice President of Finance and Administration and Secretary (Principal Financial and Accounting Officer)