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 September 27, 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 November 5, 2003 was 6,960,095.

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

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

IRIDEX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	SEPTEMBER 27, 2003	DECEMBER 28, 2002
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,800	$ 9,186
Available-for-sale securities	7,142	2,356
Accounts receivable, net	6,225	8,037
Inventories	9,447	10,725
Prepaids and other current assets	930	751
Total current assets	31,544	31,055
Property and equipment, net	662	950
Deferred income taxes	2,267	2,267
Total assets	$ 34,473	$ 34,272
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 876	$ 657
Accrued expenses	3,431	3,417
Total liabilities	4,307	4,074
Stockholders' equity:		
Common stock	70	70
Additional paid-in capital	23,723	23,631
Accumulated other comprehensive income (loss)	(1)	3
Treasury stock	(430)	(430)
Retained earnings	6,804	6,924
Total stockholders' equity	30,166	30,198
Total liabilities and stockholders' equity	$ 34,473	$ 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		NINE MONTHS ENDED	
	SEPTEMBER 27, 2003	SEPTEMBER 28, 2002	SEPTEMBER 27, 2003	SEPTEMBER 28, 2002
Sales	$ 8,267	$ 6,717	$ 22,928	$ 21,113
Cost of sales	4,678	3,705	12,981	11,895
Gross profit	3,589	3,012	9,947	9,218
Operating expenses:				
Research and development	975	919	2,972	3,384
Sales, general and administrative	2,402	2,098	7,430	6,897
Total operating expenses	3,377	3,017	10,402	10,281
Income (loss) from operations	212	(5)	(455)	(1,063)
Interest and other income (expense), net	49	(31)	154	66
Income (loss) before benefit from income taxes	261	(36)	(301)	(997)
Benefit from income taxes	0	242	181	549
Net income (loss)	$ 261	206	$ (120)	(448)
Basic net income (loss) per common share	$ 0.04	$ 0.03	$ (0.02)	$ (0.07)
Diluted net income (loss) per common share	$ 0.04	$ 0.03	$ (0.02)	$ (0.07)
Shares used in per common share basic calculations	6,933	6,875	6,922	6,858
Shares used in per common share diluted calculations	7,043	6,938	6,922	6,858

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

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

	NINE MONTHS ENDED	
	SEPTEMBER 27, 2003	SEPTEMBER 28, 2002
Cash flows from operating activities:		
Net loss	$ (120)	$ (448)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	561	652
Provision for doubtful accounts	35	(56)
Provision for inventories	348	18
Deferred income taxes	-	(555)
Changes in operating assets and liabilities:		
Accounts receivable	1,777	832
Inventories	930	825
Prepaids and other current assets	(179)	171
Accounts payable	219	(381)
Accrued expenses	14	278
Net cash provided by operating activities	3,585	1,336
Cash flows provided by (used in) investing activities:		
Purchases of available-for-sale securities	(6,640)	(3,075)
Proceeds from maturity of available-for-sale securities	1,850	4,489
Acquisition of property and equipment	(273)	(189)
Net cash provided by (used in) investing activities	(5,063)	1,225
Cash flows from financing activities:		
Issuance of common stock, net	92	201
Net cash provided by financing activities	92	201
Net increase (decrease) in cash and cash equivalents	(1,386)	2,762
Cash and cash equivalents at beginning of period	9,186	4,613
Cash and cash equivalents at end of period	$ 7,800	$ 7,375
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized losses on available-for-sale securities	$ (4)	$ -

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

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 27, 2003	SEPTEMBER 28, 2002	SEPTEMBER 27, 2003	SEPTEMBER 28, 2002
Net income (loss).	$ 261	$ 206	$ (120)	$ (448)
Other comprehensive income (loss):				
Change in unrealized gain (loss) on available-for-sale securities. . .	-	5	(4)	-
Comprehensive income (loss).	$ 261	$ 211	$ (124)	$ (448)

The accompanying notes are an integral part of these 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 nine month periods ended September 27, 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 September 27, 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 nine months ending September 27, 2003 follows (in thousands):

Balance at the beginning of the period	$ 717
Accruals for warranties issued during the period	483
Settlements made in kind during the period	(513)
Balance at the end of the period	$ 687

4. BORROWING ARRANGEMENTS

In October 2003, we have extended an existing revolving line of credit agreement with a bank. The line of credit which expires in October 2004 provides for borrowing of up to $4.0 million at the bank's prime rate. The agreement contains restrictive covenants including prohibiting payments of dividends without the bank's prior consent. There were no borrowings against the line of credit at September 27, 2003.

5. COMMITMENTS AND CONTINGENCIES

Lease Agreements

We lease our operating facilities under a noncancelable operating lease. In September 2003, we entered into a lease amendment for our facilities in Mountain View. The original lease term of this facility, which ended in February 2004, was amended and extended until February 2009. The lease agreement was also amended to grant us an option to renew this lease for an additional five year period beginning 2009 until 2014 at a base monthly rental amount to be negotiated at the time of the renewal.

Future minimum lease payments under current operating leases are summarized as follows (in thousands):

Fiscal Year	Operating Lease Payments
2004	$ 474
2005	390
2006	402
2007	416
2008 and after	501
	$ 2,183

6. 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 ("EITF") 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 nine months ended September 27, 2003.

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

	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
Net income (loss), as reported	$ 261	$ 206	$ (120)	$ (448)
Add: Total stock based compensation expense determined under fair value based method for all awards to employees	(83)	(128)	(304)	(408)
Pro forma net income (loss)	$ 178	$ 78	$ (424)	$ (856)
Basic and diluted net income (loss) per common share:				
As reported	$ 0.04	$ 0.03	$ (0.02)	$ (0.07)
Pro forma	$ 0.03	$ 0.01	$ (0.06)	$ (0.12)

7. 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:

	SEPTEMBER 27, 2003 (unaudited)	DECEMBER 28, 2002
Raw materials and work in progress.	$ 5,083	$ 6,511
Finished goods.	4,364	4,214
Total inventories	$ 9,447	$ 10,725

8. COMPUTATIONS OF NET INCOME (LOSS) PER COMMON SHARE

Basic and diluted net income (loss) per common share are computed by dividing net income (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. A reconciliation of the numerator and denominator of net income (loss) per common share is as follows (in thousands, except share data):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 27, 2003	SEPTEMBER 28, 2002	SEPTEMBER 27, 2003	SEPTEMBER 28, 2002
	(unaudited)		(unaudited)	
Numerator				
Net income (loss)	$ 261	$ 206	$ (120)	$ (448)
Denominator - Basic				
Weighted average common stock outstanding	6,933	6,875	6,922	6,858
Basic income (loss) per share	$ 0.04	$ 0.03	$ (0.02)	$ (0.07)
Denominator - Diluted				
Weighted average common stock outstanding	6,933	6,875	6,922	6,858
Effect of dilutive securities				
Weighted average common stock options	110	63	-	-
Total weighted average stock and options outstanding.	7,043	6,938	6,922	6,858
Diluted income (loss) per share	$ 0.04	$ 0.03	$ (0.02)	$ (0.07)

During the three months ended September 27, 2003 and September 28, 2002 options to purchase 1,238,594 shares and 1,498,924 shares at weighted average exercise prices of $5.89 and $5.61 per share were outstanding, but were not included in the computations of diluted net income (loss) per common share because the exercise price of the related options exceeded the average market price of the common shares. For the nine month periods ended September 27, 2003 and September 28, 2002 options to purchase 2,000,040 shares and 1,751,893 shares at weighted average prices of $5.25 and $5.15 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.

9. 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 nine months ended September 27, 2003 and September 28, 2002 is as follows (in thousands):

	Three Months Ended September 27, 2003			Three Months Ended September 28, 2002			Nine Months Ended September 27, 2003		
	Ophthalmology Medical Devices	Dermatology Medical Devices	Total	Ophthalmology Medical Devices	Dermatology Medical Devices	Total	Ophthalmology Medical Devices	Dermatology Medical Devices	Total
Sales	$ 6,897	$ 1,370	$ 8,267	$ 5,416	$ 1,301	$ 6,717	$ 18,640	$ 4,288	$ 22,928
Direct Cost of Goods Sold	2,493	835	3,328	1,713	562	2,275	6,506	2,222	8,728
Direct Gross Margin	4,404	535	4,939	3,703	739	4,442	12,134	2,066	14,200
Total Unallo-cated Costs			(4,678)			(4,478)			(14,501)
Pre-tax income (loss)			261			(36)			(301)

	Nine Months Ended September 28, 2002		
	Ophthalmology Medical Devices	Dermatology Medical Devices	Total
Sales	$ 16,172	$ 4,941	$ 21,113
Direct Cost of Goods Sold	5,182	2,163	7,345
Direct Gross Margin	10,990	2,778	13,768
Total Unallo-cated Costs			(14,765)
Pre-tax income (loss)			(997)

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.

10. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. ("FIN") 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. In October 2003, the FASB deferred the implementation date by which all public companies must apply FIN 46. The FASB agreed to provide this deferral to allow time for certain implementation issues to be addressed through the issuance of a modification to FIN 46, and indicated that it expects to issue this modification in final form prior to the end of 2003. We do not expect the adoption of FIN 46 to have a material impact on our financial position or on our results of operations.

In April 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," SFAS No. 149

requires that contracts with comparable characteristics be accounted for similarly. In particular, SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative, clarifies when a derivative contains a financing component, amends the definition of an underlying to conform it to language used in FIN 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, and amends certain other existing pronouncements. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. In addition, provisions of SFAS No. 149 should be applied prospectively. We do not expect the adoption of SFAS No. 149 to have a material impact on our financial position or on our results of operations.

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 requires that an issuer classify a financial instrument that is within its scope as a liability, or an asset in some circumstances. 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 SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. We do not expect that the adoption of SFAS No. 150 to have a material impact on our financial position or on our 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; expectations for future sales growth, generally, and the potential for production cost decreases and higher gross margins; anticipated inventory reductions and improvements from asset management efforts; levels of future investment in research and development efforts; favorable Center for Medicare and Medicaid coverage decisions regarding AMD procedures that use our products; results of clinical studies; development and introduction of new products to market, expected increases in competition and declines in average selling prices; 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		NINE MONTHS ENDED	
	SEPTEMBER 27, 2003	SEPTEMBER 28, 2002	SEPTEMBER 27, 2003	SEPTEMBER 28, 2002
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	56.6	55.2	56.6	56.3
Gross profit	43.4	44.8	43.4	43.7
Operating expenses:				
Research and development	11.8	13.7	13.0	16.0
Sales, general and administrative	29.0	31.2	32.4	32.7
Total operating expenses	40.8	44.9	45.4	48.7
Income (loss) from operations	2.6	(0.1)	(2.0)	(5.0)
Interest and other income, net	0.6	(0.4)	0.7	0.3
Loss before benefit from income taxes	3.2	(0.5)	(1.3)	(4.7)
Benefit from income taxes	0.0	3.6	0.8	2.6
Net income (loss)	3.2%	3.1%	(0.5)%	(2.1)%

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				Nine Months Ended			
	September 27, 2003		September 28, 2002		September 27, 2003		September 28, 2002	
	Amount	Percentage of total sales	Amount	Percentage of total sales	Amount	Percentage of total sales	Amount	Percentage of total sales
Domestic	$ 5,222	63.2%	$ 4,471	66.6%	$ 14,442	63.0%	$ 13,214	62.6%
International	3,045	36.8%	2,246	33.4%	8,486	37.0%	7,899	37.4%
Total	$ 8,267	100.0%	$ 6,717	100.0%	$ 22,928	100.0%	$ 21,113	100.0%
Ophthalmology:								
Domestic	$ 4,061	49.1%	$ 3,175	47.3%	$ 11,111	48.5%	$ 9,212	43.6%
International	2,836	34.3%	2,241	33.3%	7,529	32.8%	6,960	33.0%
Total	$ 6,897	83.4%	$ 5,416	80.6%	$ 18,640	81.3%	$ 16,172	76.6%
Dermatology:								
Domestic	$ 1,161	14.1%	$ 1,296	19.3%	$ 3,331	14.5%	$ 4,002	19.0%
International	209	2.5%	5	0.1%	957	4.2%	939	4.4%
Total	$ 1,370	16.6%	$ 1,301	19.4%	$ 4,288	18.7%	$ 4,941	23.4%

Combined Ophthalmology and Dermatology

Sales

Sales for the three months ended September 27, 2003 increased by 23.1% to $8.3 million from $6.7 million for the corresponding three month period ended September 28, 2002. Ophthalmology sales increased by $1.5 million while dermatology sales increased by $0.1 million for the three months ended September 27, 2003. Sales for the nine months ended September 27, 2003 increased 8.6% to $22.9 million from $21.1 million for the nine months ended September 28, 2002. For the nine month period the overall increase in sales of 8.6% was driven primarily by an increase in sales of our ophthalmology products of $2.5 million offset by a $0.7 million decrease in sales of our dermatology products.

Domestic sales increased 16.8% to $5.2 million for the three month period ended September 27, 2003 from $4.5 million for the three month period ended

September 28, 2002. For the nine months ended September 27, 2003 domestic sales increased 9.3% to $14.4 million from $13.2 million. The overall increase for the nine month period was driven mainly by $1.9 million in increased sales of our ophthalmology products offset by a $0.7 million decrease in sales of our dermatology products.

International sales increased 35.6% to $3.0 million for the three months ended September 27, 2003 from $2.2 million for the comparable prior year three-month period as a result of $0.6 million in increased sales of our ophthalmology products and $0.2 million in increased sales of our dermatology products. For the nine months ended September 27, 2003 international sales increased 7.4% to $8.5 million from $7.9 million for the nine months ended September 28, 2002. The increase in international sales during this period was driven mainly by $0.6 million in increased sales of our ophthalmology 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 27.3% to $6.9 million for the three months ended September 27, 2003 from $5.4 million for the three months ended September 28, 2002. For the nine months ended September 27, 2003 ophthalmology sales increased 15.3% to $18.6 million from $16.2 million for the comparable prior year nine-month period. Domestic ophthalmology sales increased 27.9% to $4.1 million for the three months ended September 27, 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, $0.2 million in increased unit sales of infrared laser systems, $0.4 million in increased unit sales of delivery devices and increased service revenue. For the nine months ended September 27, 2003 domestic ophthalmology sales increased 20.6% to $11.1 million from $9.2 million for the comparable prior year nine month period. Domestic ophthalmology sales increased during this period mainly as a result of $1.1 million in increased unit sales of visible laser systems, including the Millennium Endolase module, $0.8 million in increased unit sales of delivery devices and increased service revenue. International ophthalmology sales increased 26.6% to $2.8 million for the three months ended September 27, 2003 from $2.2 million for the comparable prior year three-month period. The increase in international ophthalmology sales for this period was due mainly to $0.5 million in increased unit sales of our visible laser systems, $0.3 million in increased unit sales of delivery devices offset by $0.2 million in decreased unit sales of our infrared laser systems. For the nine month period ended September 27, 2003 international ophthalmology sales increased 8.2% to $7.5 million from $7.0 million for the nine months ended September 28, 2002. The increase in international ophthalmology for the nine month period was due primarily to $0.6 million in increased unit sales of visible laser systems, $0.3 million in increased unit sales of delivery devices, offset by $0.4 million in decreased unit sales of infrared laser systems.

Dermatology Sales

Dermatology sales increased 5.3% to $1.4 million for the three months ended September 27, 2003 from $1.3 million for the three months ended September 28, 2002. Domestic dermatology sales decreased 10.4% to $1.2 million for the three month period ended September 27, 2003 from $1.3 million for the three month period ended September 28, 2002. The decrease in domestic dermatology sales was due primarily to a $0.2 million decrease in unit sales and average selling prices of dermatology products. International dermatology sales increased to $0.2 million for the three month period ended September 27, 2003 from $5,000 for the three months ended September 28, 2002 due to increased unit sales of dermatology products. For the nine months ended

September 27, 2003 dermatology sales decreased 13.2% to $4.3 million from $4.9 million for the comparable prior year nine-month period. Domestic dermatology sales decreased 16.8% to $3.3 million for the nine months ended September 27, 2003 from $4.0 million for the comparable prior year nine-month period. The decrease in domestic dermatology sales for this period was due mainly to a $0.4 million decrease in average selling prices and a $0.3 million decrease in unit sales of products. International dermatology sales for the nine months ended September 27, 2003 remained at approximately the same level when compared to the corresponding nine month period ended September 28, 2002.

Gross Profit. Gross margin decreased to 43.4% for the three months ended September 27, 2003 from 44.8% for the comparable three month period in 2002. The decrease in gross margin for this period was due to an unfavorable impact of 1.1% associated with lower average selling prices, an unfavorable impact of 0.6% related to products costs and overhead and an unfavorable impact of 0.3% related to warranty charges offset by a favorable impact of 0.6% related to product mix. For the nine months ended September 27, 2003, gross profit as a percentage of net sales decreased slightly to 43.4% as compared to 43.7% for the comparable nine month period. For the nine month period ended September 27, 2003, the decrease in gross profit as a percentage of net sales was primarily due to an unfavorable impact of 0.8% related to product mix, an unfavorable impact of 0.7% related to lower average selling prices, an unfavorable impact of 0.2% related to product costs and overhead offset by favorable impacts of 1.4% for decreased warranty costs. 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 September 27, 2003, our research and development expenses of $1.0 million increased by $0.1 million or 6.1% from $0.9 million for the three months ended September 28, 2002. However, research and development expenses decreased as a percentage of net sales to 11.8% for the three months ended September 27, 2003 from 13.7% for the comparable prior year three-month period. The increase in research and development expense in absolute dollars for the three month period ended September 27, 2003 was due primarily to $0.1 million in increased spending on new projects. The decrease in research and development as a percentage of net sales was due to the fact that the increase in sales for the three month period ended September 27, 2003 exceeded the increase in research and development expense. For the nine month period ended September 27, 2003 research and development expense was $3.0 million, a decrease of 12.2% or $0.4 million from the comparable nine month period in the prior year. The decrease in research and development expense was due to $0.2 million in reduced payroll costs as a result of the reduction in force in June 2002, which resulted in lower research and development expenses for the remaining three months of the nine month period ended September 28, 2002 and for the entire nine month period ended September 27, 2003, $0.1 million in reduced clinical spending and $0.1 million in reduced project spending. As a percentage of net sales research and development expense decreased to 13.0% from 16.0% for the comparable prior year nine month period. The decrease in research and development expense as a percentage of sales for the nine month period ended September 27, 2003 was due primarily to the increase in revenue.

Sales, General and Administrative. Our sales, general and administrative expenses increased by 14.5% to $2.4 million for the three months ended September

27, 2003 from $2.1 million for the three months ended September 28, 2002. As a percentage of net sales, sales, general and administrative expenses decreased to 29.0% for the three months ended September 27, 2003 from 31.2% for the comparable prior year three-month period. The increase in sales, general and administrative expense in absolute dollars for the three month period ending September 27, 2003 was due primarily to $0.2 million in increased non-commission related selling activities and a $0.1 million net increase in administrative spending, which consisted primarily of insurance. The decrease in sales, general and administrative expense as a percentage of net sales was driven mainly by the increase in revenue relative to the increase in sales, general and administrative expense. For the nine months ended September 27, 2003, sales, general and administrative expenses increased by 7.7% to $7.4 million from $6.9 million for the comparable period in 2002. Sales, general and administrative expenses as a percentage of net sales decreased slightly to 32.4% for the nine months ended September 27, 2003 from 32.7% for the comparable period in 2002. The increase in absolute dollars for the nine month period ended September 27, 2003 was due primarily to $0.4 million in increased non-commission related selling activities and $0.2 million in increased administrative spending associated mainly with consulting and insurance costs. The decrease in sales, general and administrative expenses as a percentage of net sales for the nine month period was due mainly to the increase in revenue relative to the increase in sales, general and administrative expense.

Interest and Other Income, net. For the three months ended September 27, 2003, we realized net interest and other income of $49,000 as compared with $31,000 in net interest expense for the comparable quarter in 2002. For the nine months ended September 27, 2003, net interest and other income was $154,000 as compared with $66,000 for the comparable nine month period ended September 28, 2002.

Income Taxes. The effective income tax rates for the three and nine month periods ended September 27, 2003 were lower for periods where we had pre-tax income and higher for periods where we had pre-tax losses than the Federal and State combined statutory rate of 40% primarily because of certain tax benefits associated with tax credits for research and development activities. Based on our year to date tax liability, no tax expense was recorded in the third quarter of 2003.

LIQUIDITY AND CAPITAL RESOURCES

At September 27, 2003, our primary sources of liquidity included cash and cash equivalents and available-for-sale securities in the aggregate amount of $14.9 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 2004. As of September 27, 2003, no borrowings were outstanding under this credit facility. We expect to renew the line of credit in October 2004 assuming that the terms continue to be acceptable.

During the nine months ended September 27, 2003, we used $1.4 million in cash and cash equivalents. During this period, operating activities provided $3.6 million of cash. Sources of cash from operating activities included a decrease in net accounts receivable of $1.8 million, a decrease in net inventories of $1.3 million, depreciation of $0.6 million, an increase in combined accounts payable and accrued expenses of $0.2 million, offset in part, by uses of cash including a net loss of $0.1 million, and an increase in prepaid expenses of $0.2 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.

Investing activities used $5.1 million in cash and cash equivalents during the nine months ended September 27, 2003, primarily due to net purchases of available for sale securities of $4.8 million and $0.3 million for the acquisition of property and equipment.

Net cash provided by financing activities during the nine months ended September 27, 2003 was $92,000 which resulted from the issuance of common stock.

Our operating facilities are located in 37,000 square feet of space in Mountain View, California. In September 2003, we entered into a lease amendment for our facilities in Mountain View. The original lease term of this facility, which ended in February 2004, was amended and extended until February 2009. The lease agreement was also amended to grant us an option to renew this lease for an additional five year period beginning 2009 until 2014 at a base monthly rental amount to be negotiated at the time of the renewal. A summary of our future minimum commitments under this lease is presented in Note 4 - "Commitments and Contingencies" in the Notes to Condensed Consolidated Financial Statements.

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, we may require or desire additional funds to support our operating expenses and capital requirements or for other purposes, such as acquisitions, competitive reasons or for new product development, and may seek to raise such additional funds through public or private equity financing or from other sources. 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 November 2002, the Emerging Issues Task Force, or EITF, reached a consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We do not expect the adoption of EITF Issue No. 00-21 to have a material impact on our financial position or on our results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46, or FIN 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. In October 2003, the

FASB deferred the implementation date by which all public companies must apply FIN 46. We must apply FIN 46 no later than the first reporting period ending after December 15, 2003. The FASB agreed to provide this deferral to allow time for certain implementation issues to be addressed through the issuance of a modification to FIN 46, and indicated that it expects to issue this modification in final form prior to the end of 2003. We do not expect the adoption of FIN 46 to have a material impact on our financial position or on our results of operations.

In April 2003, the FASB issued Statement No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities, or SFAS No. 149. SFAS No. 149 requires that contracts with comparable characteristics be accounted for similarly. In particular, SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative, clarifies when a derivative contains a financing component, amends the definition of an underlying to conform it to language used in FIN 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, and amends certain other existing pronouncements. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. In addition, provisions of SFAS No. 149 should be applied prospectively. We do not expect the adoption of SFAS No. 149 to have a material impact on our financial position or on our results of operations.

In May 2003, the FASB issued Statement No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, or SFAS No. 150. 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 requires that an issuer classify a financial instrument that is within its scope as a liability, or an asset in some circumstances. 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 SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. We do not expect that the adoption of SFAS No. 150 to have a material impact on our financial position or on our 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 visible and infrared light semiconductor-based photocoagulator medical laser systems 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.

In addition, we derive a meaningful portion of our revenues from the sale of delivery devices and from service revenues. Our ophthalmology and dermatology medical laser consoles are not designed to exclusively utilize our delivery devices and can be used with the delivery devices of our competitors. Our ability to increase revenues from the sale of delivery devices will depend primarily upon the feature, ease of use and prices of our products, including relative to the prices of competing delivery devices. The level of service revenues will depend on our quality of care, responsiveness and the willingness of our customers to request our services rather than purchase a competing product or services. Any significant decline in market acceptance of our products or our revenues derived from the sales of laser consoles, delivery devices or services 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. 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 in 2002, which we manufacture to be included in Bausch & Lomb's Millennium Microsurgical System. Successful commercialization of these and other 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. The overall weak economic conditions worldwide have resulted in reduced demand for some of our products, particularly demand for our dermatology products. Continued political and social turmoil in Iraq or other parts of the world or terrorist acts may 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. 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.

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 September 27, 2003, our international sales were $3.0 million or 36.8% 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 has 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."

We Depend on Sales of Our Ophthalmology Products for a Significant Portion of Our Operating Results. We derive, and expect to continue to derive, a large portion of our revenue and profits from sales of our ophthalmology products. For the three months ended September 27, 2003, sales of our ophthalmology products were $6.9 million or 83.4% of total sales and contributed $4.4 million to total direct gross margins of $4.9 million for the three month period. We anticipate that sales of our ophthalmology products will continue to account for a significant portion of our revenues in the foreseeable future as we continue to introduce new ophthalmology products, such as the previously announced OcuLight Symphony multi-wavelength laser delivery system, expanded EndoProbe product line and 5 mm Large Spot Slit Lamp Adapter, and support clinical trials in the field of ophthalmology, including the TTT4CNV clinical trial for the treatment of wet AMD.

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. In June 2003, we announced the publication of two additional clinical studies, which also support the effectiveness of TTT for the treatment of wet age-related macular degeneration. Both studies were prospective, non-randomized, non-masked case series that were performed using our OcuLight SLx laser and Large Spot Size Slit Lamp Adapter. 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 September 27, 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. 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 thirteen United States patents and one foreign patent on the technologies related to our products and processes. We have approximately eleven pending patent applications in the United States and nine 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 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. Over the past several quarters, we have placed a high priority on our asset management efforts to, among other things, reduce overall inventory levels and increase our cash position. 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 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 September 27, 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 2004 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

Our management have evaluated, with the participation of our President and Chief Executive Officer, who is our principal executive officer, and our Chief Financial Officer and Vice President, Administration, who is our principal financial officer, the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15(d)-15(e) of the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our President and Chief Executive Officer and our Chief Financial Officer and Vice President Administration concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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
None.

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	Lease Agreement dated December 6, 1996, by and between Zappetini Investment Co. and the Registrant, as amended by that certain Lease Amendment and Extension, dated September 15, 2003.
31	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications 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.

(b) Reports on Form 8-K

The Company filed a report on Form 8-K on October 21, 2003 relating to a press release regarding the Company's financial results for the fiscal quarter ended September 27, 2003.

TRADEMARK ACKNOWLEDGMENTS

IRIDEX, the IRIDEX logo, IRIS Medical, Oculight, EndoProbe and Apex are our registered trademarks, IRIDERM and Britelight product names are our trademarks. All other trademarks or trade names appearing in this Form 10-Q are the property of their respective owners.

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: November 12, 2003

By: /s/ Larry Tannenbaum

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

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
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Exhibit 10.1

LEASE AGREEMENT

This Lease, executed in duplicate at Palo Alto, California, this 6th day of December 1996, by and between:

PARTIES

Zappettini Investment Co.

and

IRIDEX Corporation

hereinafter called respectively Lessor and Lessee, without regard to number or gender,

PREMISES

1. WITNESSETH: That Lessor hereby leases to Lessee, and Lessee hires from Lessor, those certain premises, hereinafter in this lease designated as "the Premises", with the appurtenances, situated in the City of Mountain View, County of Santa Clara, State of California, and more particularly described as follows, to-wit:

An appropriate 37,166 square foot industrial building located on 2.69 acre lot and commonly referred to as 1212 Terra Bella, Mountain View, California.

USE

2. The Premises shall be used and occupied by Lessee for design, testing, manufacturing, assembly, sales, office, administration, research and development and other legal uses ancillary thereto and for no other purpose without the prior written consent of Lessor.

TERM

3. The term shall be for 5 (five) years, commencing on the 1st day of March, 1997, (the "Commencement Date") and ending on the 28th day of February, 2002.

RENTAL

4. Rent shall be payable to the Lessor without deduction or offset at such place or places as may be designated from time to time by the Lessor as follows:

Thirty Three Thousand One Hundred Eighty Two and 60/100ths Dollars ($33,182.60) upon execution of this Lease representing rental due March 1, 1997. $33,182.60 shall be due on April 1, 1997 and on the 1st day of each and every succeeding month through August 1st 1997. Forty Thousand Eight Hundred Eighty Two and 60/100ths ($40,882.60) shall be due on September l, 1997 and on the 1st day of each and every succeeding month through February 1, 1999. Forty

Two Thousand Seven Hundred Forty and 90/100ths Dollars ($42,740.90) shall be due on March 1, 1999 and on the 1st day of each and every succeeding month through February 1, 2000. Forty Four Thousand Five Hundred Ninety Nine and 20/100ths dollars ($44,599.20) shall be due on March 1, 2000 and on the 1st day of each and every succeeding month through February 1, 2001. Forty Six Thousand Four Hundred Fifty Seven and 50/100ths Dollars ($46,457.50) shall be due on March 1, 2001 and on the 1st day of each and every succeeding month through February 1, 2002.

SECURITY DEPOSIT

5. Lessee has deposited with Lessor $46,457.50 as security for the full and faithful performance of each and every term, provision, covenant and condition of this Lease. In the event Lessee defaults in respect of any of the terms, provisions, covenants or conditions of this Lease, including, but not limited to the payment of rent, Lessor may use, apply or retain the whole or any part of such security for the payment of any rent in default or for any other sum which Lessor may spend or be required to spend by reason of Lessee's default. Should Lessee faithfully and fully comply with all of the terms, provisions, covenants and conditions of this Lease, the security of any balance thereof shall be returned to Lessee or, at the option of Lessor, to the last assignee of Lessee's interest in this Lease at the expiration of the term hereof. Lessee shall not be entitled to any interest on said security deposit.

POSSESSION

6. If Lessor, for any reason whatsoever, cannot deliver possession of the Premises to Lessee at the commencement of the said term, as hereinbefore specified, this Lease shall not be void or voidable, nor shall Lessor, or Lessor's agents, be liable to Lessee for any loss or damage resulting therefrom; but in that event the commencement and termination dates of the Lease and all other dates affected thereby shall be revised to conform to the date of Lessor's delivery possession.(*)
(*) See Addendum attached

ACCEPTANCE OF PREMISES AND CONSENT TO SURRENDER

7. By entry hereunder, the Lessee accepts the Premises as being in good and satisfactory condition, unless within forty-five (45) days after such entry Lessee shall give Lessor written notice specifying in reasonable detail the respects in which the Premises were not in satisfactory condition.(*) The Lessee agrees on the last day of the term hereof, or on sooner termination of this Lease, to surrender the premises, together with all alterations, additions, and improvements which may have been made in, to, or on the Premises by Lessor or Lessee, unto Lessor in the same good condition as at Lessee's entry into the Premises excepting for such wear and tear as would be normal for the period of the Lessee's occupancy and

casualty. The Lessee, on or before the end of the term or sooner termination of this Lease, shall remove all Lessee's personal property and trade fixtures from the premises and all property not so removed shall be deemed to be abandoned by the Lessee. If the Premises be not surrendered at the end of the term or sooner termination of this Lease, the Lessee shall indemnify the Lessor against loss or liability resulting from delay by the Lessee in so surrendering the Premises including, without limitation, any claims made by any succeeding tenant founded on such delay. (*)
(*) See Addendum attached

USES PROHIBITED

8. Lessee shall not commit, or suffer to be committed, any waste upon the Premises, or any nuisance, or other act or thing which may disturb the quiet enjoyment of any other tenant in or around the buildings in which the Premises may be located, or allow any sale by auction upon the Premises, or allow the Premises to be used for any improper, immoral, unlawful or objectionable purpose, or place any loads upon the floor, walls, or roof which endanger the structure, or place any harmful liquids in the drainage system of the building. No waste materials or refuse shall be dumped upon or permitted to remain upon any part of the Premises outside of the building proper. No materials, supplies, equipment, finished products or semi-finished products, raw materials or articles of any nature shall be stored upon or permitted to remain on any portion of the Premises outside of the buildings proper.

ALTERATIONS AND ADDITIONS

9. The lessee shall make no alternations, additions or improvements to the Premises or any part thereof without first obtaining the prior written consent of the Lessor, which consent shall not be unreasonably withheld or delayed. The Lessor may impose as a condition to the aforesaid consent such requirements as Lessor may deem necessary in Lessor's sole discretion including without limitation thereto, a right of approval of the contractor by whom the work is to be performed which approval shall not be unreasonably withheld or delayed, the times during which it is to be accomplished, and the requirement that upon written request of Lessor prior to the expiration or earlier termination of the Lease, Lessee will remove any or all improvements or additions to the Premises installed at Lessee's expense.(*) All such alterations, additions or improvements not specified to be removed shall at the expiration of earlier termination of the lease become the property of the Lessor and remain upon and be surrendered with the Premises. All movable furniture, business and trade fixtures, and machinery and equipment shall remain the property of the Lessee and may be removed by the Lessee at any time during the Lease term when Lessee is not in default hereunder. Items which are not to be deemed as movable

furniture, business and trade fixtures, or machinery and equipment shall include heating, lighting, electrical systems, air conditioning, permanent partitioning, carpeting, or any other installation which has become an integral part of the Premises.(**) The Lessee will at all times permit notices of non- responsibility to be posted and to remain posted until the completion of alterations or additions which have been approved by the Lessor.
(*) & (**) SEE ADDENDUM ATTACHED

MAINTENANCE OF PREMISES

10. Lessee shall, at Lessee's sole cost, keep and maintain the Premises and appurtenances and every part thereof, including but not limited to, glazing, sidewalks, parking areas, including resealing the parking lot approximately every three (3) years, plumbing, electrical systems, heating and air conditioning installations, any store front, roof covering - unless it is not feasible to repair the existing roof covering and a new roof covering is required, and the interior of the Premises in good order, condition, and repair. Lessor at Lessor's sole cost and expense shall maintain the exterior of the walls, and structural portions of the roof, foundations, walls, and floors except for any repairs caused by the wrongful act of the Lessee and Lessee's agents. The Lessor will replace the roof covering if repairs to said covering are no longer economically feasible in the judgment of roofing experts, and provided that said replacement is not made necessary by acts of the Lessee and Lessee's agents. The Lessee shall water, maintain and replace, when necessary, any shrubbery and landscaping provided by the Lessor on the Premises. The Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford the Lessee the right to make repairs at Lessor's expense or to terminate this lease because of Lessor's failure to keep the Premises in good order, conditions or repair. (***)
(***) SEE ADDENDUM ATTACHED

INSURANCE

11. Lessee shall not use, or permit the Premises, or any part thereof, to be used, for any purposes other than that for which the Premises are hereby leased; and no use shall be made or permitted to be made on the Premises, nor acts done, which will cause a cancellation of any insurance policy covering said building, or any part thereof, nor shall Lessee sell or permit to be kept, used or sold, in or about the Premises, any article which may be prohibited by the standard form of fire insurance policies. Lessee shall, at his sole cost and expense, comply with any and all requirements, pertaining to the Premises, of any insurance organization or company, necessary for the maintenance of reasonable fire and public liability insurance, covering said building and appurtenances.

11.1 Lessee shall, at its expense, obtain and keep in force during

the term of this Lease a policy of comprehensive public liability insurance insuring Lessee, Lessor, and any third parties named by Lessor which may include Lessor's lender, against liability for personal injury, bodily injury, death and damage to property arising out of the condition, use, occupancy or maintenance of the Premises. Such insurance policy shall have a combined single limit for both bodily injury and property damage in an amount not less than One Million Dollars ($1,000,000.00). The limits of said insurance shall not limit the liability of Lessee hereunder.

11.2 Lessee shall, at its expense, keep in force during the term of this Lease, a policy of fire and property damage insurance in an "all risk" form with a sprinkler leakage endorsement, insuring Lessee's inventory, fixtures, equipment and personal property within the Premises for the full replacement value thereof.

11.3 Lessor shall maintain a policy or policies of fire and property damage insurance in an "all risk" form, with sprinkler and, at the option of the Lessor, earthquake endorsements, covering loss or damage to the building, including Lessee's leasehold improvements installed with the written consent of the Lessor for the full replacement cost thereof.

11.4 Lessee shall pay to Lessor as additional rent, during the term hereof, upon receipt of an invoice therefore, 100 percent of the premiums for any insurance obtained by Lessor pursuant to 11.3 above. Lessor may obtain such insurance for the Building separately, or together with other buildings and improvements which Lessor elects to insure together under blanket policies of insurance. In such case Lessee shall be liable for only such portion of the premiums for such blanket policies as are allocable to the Premises. It is understood and agreed that Lessee's obligation under this paragraph shall be prorated to reflect the Commencement Date and Expiration Date of the Lease. If Lessor carries earthquake insurance, Lessee's obligation to reimburse Lessor for premiums shall not exceed $20,000.00 annually.

11.5 Notwithstanding anything to the contrary in this Lease, Lessee and Lessor each hereby waives any and all rights of recovery against the other, or against the officers, directors, employees, partners, agents and representatives of the other, for loss of or damage to the property of the waiving party or the property of others under its control, to the extent such loss or damage is insured against under any insurance policy carried by Lessor or Lessee hereunder. Each party shall notify their respective insurance carriers of this waiver.

ABANDONMENT

12. Lessee shall not abandon the Premises at any time during the term; and if Lessee shall abandon, or surrender the premises, or be dispossessed by process of law, or otherwise, any personal property belonging to Lessee and left on the Premises shall be deemed to be abandoned, at the option of Lessor.

FREE FROM LIENS

13. Lessee shall keep the Premises and the property in which the premises are situated, free from any liens arising out of any work performed, materials furnished, or obligations incurred by Lessee.

COMPLIANCE WITH GOVERNMENTAL REGULATIONS

14. Lessee shall, at his sole cost and expense, comply with all of the requirements of all Municipal, State and Federal authorities now in force, or which may hereafter be in force, pertaining to the Premises, and shall faithfully observe in the use of the Premises all Municipal ordinances and State and Federal statutes now in force or which may hereafter be in force. The judgment of any court of competent jurisdiction, or the admission of Lessee in any action or proceeding against Lessee, whether Lessor be a party thereto or not, that Lessee has violated any such ordinance or statute in the use of the Premises, shall be conclusive of that fact as between Lessor and Lessee.(*) SEE ADDENDUM ATTACHED.

INDEMNIFICATION OF LESSOR AND LESSEE'S LIABILITY INSURANCE

15. The Lessee, as a material part of the consideration to be rendered to the Lessor, hereby waives all claims against the Lessor for damages to goods, wares and merchandise, and all other personal property in, upon, or about the Premises and for injuries to persons in or about the Premises, from any cause arising at any time, excepting claims arising from the Lessor's negligence and willful misconduct or breach of this Lease and the Lessee will hold the Lessor exempt and harmless from any damage or injury to any person, or to the goods, wares and merchandise and all other personal property of any person, arising from the use of the Premises by the Lessee, or from the failure of the Lessee to keep the Premises in good condition and repair, as herein provided.

ADVERTISEMENTS AND SIGNS

16. Lessee will not place or permit to be placed, in, upon or about the Premises any unusual or extraordinary signs, or any signs not approved by the city or other governing authority. The Lessee will not place, or permit to be placed, upon the Premises, any signs, advertisements or notices without the written consent of the Lessor first had and obtained.(*) Any sign so placed on the Premises shall be so placed upon the understanding and agreement that Lessee will remove same at the termination of the tenancy herein created and repair any damage or injury to the Premises caused thereby, and if not so removed by Lessee then Lessor may have same so removed at

Lessee's expense.
(*) SEE ADDENDUM ATTACHED

UTILITIES

17. Lessee shall pay for all water, gas, heat, light, power, telephone service and all other service supplied to the Premises.

ATTORNEY'S FEES

18. In case suit should be brought for the possession of the Premises, for the recovery or any sum due hereunder, or because of the breach of any other covenant herein, the losing party shall pay to the prevailing party a reasonable attorney's fee, which shall be deemed to have accrued on the commencement of such action and shall be enforceable, whether or not such action is prosecuted to judgment.

DEFAULT

19. In the event of any breach of this Lease by the Lessee, or an abandonment of the Premises by the Lessee, the Lessor has the option of 1) removing all persons and property from the Premises and repossessing the Premises in which case any of the Lessee's property which the Lessor removes from the Premises may be stored in a public warehouse or, elsewhere at the cost of, and for the account of Lessee, or 2) allowing the Lessee to remain in full possession and control of the Premises. If the Lessor chooses to repossess the Premises, the Lease will automatically terminate in accordance with provisions of the California Civil Code, Section 1951.2. In the event of such termination of the Lease, the Lessor may recover from the Lessee: 1) the worth at the time of award of the unpaid rent which had been earned at the time of termination including interest at 7% per annum; 2) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided including interest at 7% per annum; 3) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and 4) any other amount necessary to compensate the Lessor for all the detriment proximately caused by the Lessee's failure to perform his obligations under the Lease or which in the ordinary course of things would be likely to result therefrom. If the Lessor chooses not to repossess the Premises, but allows the Lessee to remain in full possession and control of the Premises, then in accordance with provisions of the California Civil Code, Section 1951.4, the Lessor may treat the Lease as being in full force and effect, and may collect from the Lessee all rents as they become due through the termination date of the lease as specified in the lease. For the purposes of this paragraph, the following do not constitute a termination of Lessee's

right to possession:
a) Acts of maintenance or preservation or efforts to relet the property.
b) The appointment of a receiver on the initiative of the Lessor to protect his interest under this Lease. (*)
(*) SEE ADDENDUM ATTACHED

LATE CHARGES

20. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, Lessee shall pay to Lessor a late charge equal to seven and one half percent (7.5%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder.

SURRENDER OF LEASE

21. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subleases or subtenancies, or may, at the option of Lessor, operate as an assignment to him of any or all such subleases or subtenancies.

TAXES

22. The Lessee shall be liable for all taxes levied against personal property and trade or business fixtures. The Lessee also agrees to pay, as additional rental, during the term of this Lease and any extensions thereof, all real estate taxes plus the yearly installments of any special assessments which are of record or which may become of record during the term of this lease. If said taxes and assessments are assessed against the entire building and building site, and this Lease does not cover the entire building or building site, the taxes and assessment installments allocated to the Premises shall be prorated on a square footage or other equitable basis, as calculated by the Lessor. It is understood and agreed that the Lessee's obligation under his paragraph will be pro-rated to reflect the commencement and termination dates of this Lease. Real estate taxes shall not include taxes assessed on the net income of Lessor or any gift, franchise or inheritance taxes.

NOTICES

23. All notices to be given to Lessee may be given in writing personally or by depositing the same in the United States mail, postage prepaid, and addressed to Lessee at the said Premises, whether or not Lessee has departed from, abandoned or vacated the Premises.

ENTRY BY LESSOR

24. Lessee shall permit Lessor and his agents to enter into and upon the Premises at all reasonable times for the purpose of inspecting the same or for the purpose of maintaining the building in which the Premises are situated, or for the purpose of making repairs, alterations or additions to any other portion of said building, including the erection and maintenance of such scaffolding, canopies, fences and props as may be required without any rebate of rent and without any liability to Lessee for any loss of occupation or quiet enjoyment of the Premises thereby occasioned; and shall permit Lessor and his agents, at any time within ninety days prior to the expiration of this Lease, to place upon the Premises any usual or ordinary "For Sale" or "To Lease" signs and exhibit the Premises to prospective tenants at reasonable hours.

DESTRUCTION OF PREMISES

25. In the event of a partial destruction of the Premises during the said term from any cause, Lessor shall forthwith repair the same, provided such repairs can be made within one hundred twenty (120) days under the laws and regulations of State, Federal, County or Municipal authorities, but such partial destruction shall in no way annul or void this Lease, except that Lessee shall be entitled to a proportionate reduction of rent while such repairs are being made, such proportionate reduction to be based upon the extent to which the making of such repairs shall interfere with the business carried on by Lessee in the Premises. If such repairs cannot be made in one hundred twenty (120) days, Lessor may, at his option, make same within a reasonable time, this Lease continuing in full force and effect and the rent to be proportionately reduced as aforesaid in this paragraph provided. In the event that Lessor does not so elect to make such repairs which cannot be made in one hundred twenty (120) days, or such repairs cannot be made under such laws and regulations, this Lease may be terminated at the option of either party. In respect to any partial destruction which Lessor is obligated to repair or may elect to repair under the terms of this paragraph, the provision of Section 1932, Subdivision 2, and of section 1933, Subdivision 4, of the Civil Code of the State of California are waived by Lessee. In the event that the building in which the Premises may be situated be destroyed to the extent of not less than fifty percent (50%) of the replacement cost thereof, Lessor may elect to terminate this Lease, whether the Premises be injured or not. A total destruction of the building in which the Premises may be situated shall terminate this Lease. In the event of any dispute between Lessor and Lessee relative to the provisions of this paragraph, they shall each select an arbitrator, the two arbitrators so selected shall select a third arbitrator and the three arbitrators so selected shall hear and determine the controversy and their decision thereon shall be final and binding upon both Lessor and Lessee, who shall bear the cost of such arbitration equally between them.

ASSIGNMENT AND SUBLETTING

26. The Lessee shall not assign, transfer, or hypothecate the leasehold estate under this Lease, or any interest therein, and shall not sublet the Premises, or any part thereof, or any right or privilege appurtenant thereto, or suffer any other person or entity to occupy or use the Premises, or any portion thereof, without, in each case, the prior written consent of the Lessor. Lessor agrees not to unreasonably withhold consent to sublet or assign. As a condition for granting its consent to any subletting the Lessor may require the Lessee to agree to pay to the Lessor, as additional rental, 50% of all rents received by the Lessee from its Sublessee after deductions for brokerage commissions which are in excess of the amount payable by the Lessee to the Lessor hereunder. The Lessee shall, by thirty (30) days written notice, advise the Lessor of its intent to sublet the Premises or any portion thereof for any part of the term hereof. Within thirty (30) days after receipt of Lessee's notice, Lessor shall either give approval or disapproval to Lessee to sublease the portion of the Premises described in Lessee's notice. If the Lessor approves a subletting, the Lessee may sublet immediately after receipt of the Lessor's written approval. In the event Lessee is allowed to assign, transfer or sublet the whole or any part of the Premises, with the prior written consent of Lessor, no assignee, transferee or sublessee shall assign or transfer this Lease, either in whole or in part, or sublet the whole or any part of the Premises, without also having obtained the prior written consent of the Lessor. A consent of Lessor to one assignment, transfer, hypothecation, subletting, occupation or use by any other person shall not release Lessee from any of Lessee's obligations hereunder or be deemed to be a consent to any subsequent similar or dissimilar assignment, transfer, hypothecation, subletting, occupation or use by any other person. Any such assignment, transfer, hypothecation, subletting, occupation or use without such consent shall be void and shall constitute a breach of this Lease by Lessee and shall, at the option of Lessor exercised by written notice to Lessee, terminate this Lease. The leasehold estate under this Lease shall not, nor shall any interest therein, be assignable for any purpose by operation of law without the written consent of Lessor. As a condition to its consent, Lessor may require Lessee to pay all expense in connection with the assignment, and Lessor may require Lessee's assignee or transferee (or other assignees or transferees) to assume in writing all of the obligations under this Lease. (*)

(*) SEE ADDENDUM ATTACHED

CONDEMNATION

27. If any part of the premises shall be taken for any public or quasi-public use, under any statute or by right of eminent domain or private purchase in lieu thereof, and a part thereof remains which is susceptible of occupation hereunder, this Lease shall, as to the part so taken, terminate as of the date title shall vest in the condemnor or purchaser, and the rent payable hereunder shall be adjusted so that the Lessee shall be required to pay for the remainder of the term only such portion of such rent as the value of the part remaining after such taking bears to the value of the entire Premises prior to such taking; but in such event Lessor shall have the option to terminate this Lease as of the date when title to the part so taken vests in the condemnor or purchaser. If all of the premises, or such part thereof be taken so that there does not remain a portion susceptible for occupation hereunder, this Lease shall thereupon terminate. If a part or all of the Premises be taken, all compensation awarded upon such taking shall go to the Lessor and the

Lessee shall have no claim thereto, except that Lessee shall have the right to receive that portion of the condemnation proceeds based upon the value of all personal property that Lessee shall have the right to remove from the Premises.

EFFECT OF CONVEYANCE

28. The term "Lessor" as used in this Lease, means only the owner for the time being of the land and building containing the Premises, so that, in the event of any sale of said land or building, or in the event of a lease of said building, the Lessor shall be and hereby is entirely freed and relieved of all covenants and obligations of the Lessor hereunder, provided that Lessor transfers the security deposit to the transferee and the transferee assumes in writing Lessor's obligations hereunder, and it shall be deemed and construed, without further agreement between the parties and the purchaser at any such sale, or the Lessee of the building, that the purchaser or lessee of the building has assumed and agreed to carry out any and all covenants and obligations of the Lessor hereunder. If any security be given by the Lessee to secure the faithful performance of all or any of the covenants of this Lease on the part of the Lessee, the Lessor may transfer and deliver the security, as such, to the purchaser at any such sale or the lessee of the building, and thereupon the Lessor shall be discharged from any further liability In reference thereto.

SUBORDINATION

29. Lessee agrees that this Lease may, at the option of Lessor, be subject and subordinate to any mortgage, deed of trust or other instrument of security which has been or shall be placed on the land and building or land or building of which the Premises form a part, and thus subordination is hereby made effective without any further act of Lessee. The Lessee shall, at any time hereinafter, on demand, execute any instruments, releases, or other documents that may be required by any mortgagee, mortgagor, or trustor or beneficiary under any deed of trust for the purpose of subjecting and subordinating this Lease to the lien of any such mortgage, deed of trust or other instrument of security, and the failure of the Lessee to execute any such instruments, releases or documents, shall constitute a default hereunder. Lessee shall not be required to execute any documents subordinating this Lease unless the holder of any such Lien executes a Non-Disturbance Agreement in favor of Lessee.

WAIVER

30. The waiver by Lessor of any breach of any term, covenant or condition, herein contained shall not be deemed to be a waiver of such term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition therein contained. The subsequent acceptance of rent hereunder by Lessor shall not be deemed to be a waiver of any preceding breach by Lessee of any term, covenant or condition of this Lease, other than the failure of Lessee to pay the particular rental so accepted, regardless of Lessor's knowledge of such preceding breach at the time or acceptance of such rent.

HOLDING OVER

31. Any holding over after the expiration of the said term, with the consent of Lessor, shall be construed to be a tenancy from month to month, at a rental to be negotiated by Lessor and Lessee prior to the expiration of said term, and shall otherwise be on the terms and conditions herein specified, so far as applicable.

SUCCESSORS AND ASSIGNS

32. The covenants and conditions herein contained shall, subject to the provisions as to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of all of the parties hereto; and all of the parties hereto shall be jointly and severally liable hereunder.

TIME

33. Time is of the essence of this Lease.

MARGINAL CAPTIONS

34. The marginal headings or titles to the paragraphs of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part thereof. This instrument contains all of the agreements and conditions made between the parties hereto and may not be modified orally or in any other manner than by an agreement in writing signed by all of the parties hereto or their respective successors in interest.

PARAGRAPHS #35 AND #36 AND ADDENDUM ATTACHED HERETO ARE HEREBY MADE A PART OF THIS LEASE.

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY WHO WILL REVIEW THE DOCUMENT AND ASSIST YOU TO DETERMINE WHETHER YOUR LEGAL RIGHTS ARE ADEQUATELY PROTECTED. RENAULT & HANDLEY IS NOT AUTHORIZED TO GIVE LEGAL AND TAX ADVICE. NO REPRESENTATION OR RECOMMENDATION IS MADE BY RENAULT & HANDLEY OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT OR TAX CONSEQUENCES OF THIS DOCUMENT OR

ANY TRANSACTION RELATING THERETO. THESE ARE QUESTIONS FOR YOUR ATTORNEY WITH WHOM YOU SHOULD CONSULT BEFORE SIGNING THIS DOCUMENT.

IN WITNESS WHEREOF, Lessor and Lessee have executed these presents, the day and year first above written.

LESSOR	LESSEE
ZAPPETTINI INVESTMENT CO.	IRIDEX CORPORATION
/s/GEORGE O. MCKEE	/s/THEODORE A. BOUTACOFF
- ----------	----------
- ----------	----------
- ----------	----------

ADDITIONAL PARAGRAPHS

These additional paragraphs are hereby made apart of that certain Lease dated December 6, 1996 by and between Zappettini Investment Co., Lessor, and Iridex Corporation, Lessee, covering premises at 1212 Terra Bella, Mountain View, California.

35. Options to Renew. Lessor grants to Lessee two successive two year options to renew this Lease. The first two year option shall commence, if at all, on the termination date of this Lease and will terminate on February 29, 2004. The second option period shall commence, if at all, on March 1, 2004 providing that the first option has been exercised and shall terminate on February 28, 2006. In no event can the 2nd option to renew be exercised unless the 1st option to renew has been exercised. The option terms shall be governed by all the terms and conditions as are contained in the Lease excepting that there shall be no additional options and also excepting the basic monthly rental. The basic monthly rent for each of the option terms shall be negotiated by Lessor and Lessee at the time each option is exercised and shall be based on 98 percent of the then market rent for the Premises based on similar space within a 1 mile radius of the subject property. In no event however, shall the monthly rental for the first option term be less than $46,457.50 nor shall the rental amount for the 2nd option term be less than that amount being paid for the 1st option term. In order to exercise each option, the Lessee must give the Lessor written notice a minimum of 90 days and a maximum of 120 days prior to the termination of the immediately preceding term. At the option of the Lessor, any of the above options to renew may be declared null and void if the Lessee is in default under any of the terms or conditions of the Lease when said option is exercised.

36. Lessor will indemnify, defend and hold Lessee harmless from and against all costs of response, corrective action, remedial action, claims, demands, losses and liabilities arising from any pre-existing environmental contamination which may have occurred prior to the Lessee taking possession of the Premises.

Lessee will only be responsible for contamination of the Premises or the soils or ground water thereon or thereunder in violation of Hazardous Materials Laws, that is caused by Lessee or Lessee's agents, contractors or invitees during the term as may be extended. All hazardous materials and toxic wastes that Lessee brings on the Premises shall be stored according to Hazardous Materials Law.

All hazardous materials and toxic wastes that Lessee brings on the site shall be stored according to all local, state and national government regulations. Hazardous Materials shall be defined as those substances that are recognized as posing a risk of injury to health or safety by the Santa Clara Fire Department, the Santa Clara County Health Department, the Regional Water Quality Control Board, the State of California or the Federal Government.

For purposes of this Lease, "Hazardous Materials Law" shall mean all local, state and federal laws, statutes, ordinances, rules, regulations, judgements, injunctions, stipulations, decrees, orders, permits, approvals, treaties or protocols now or hereafter enacted, issued or promulgated by any governmental authority which relate to any Hazardous Material or the use, handling, transportation,

production, disposal, discharge, release, emission, sale or storage of, or the exposure of any person to, a Hazardous Material.

Lessor hereby releases Lessee from and waives all claims, costs, losses, damages and liabilities ("Claims") against Lessee, arising out of or in connection with any Hazardous Material present at any time on, in, under or about the Premises except to the extent that any such Claims results from the release, disposal, emission or discharge of Hazardous Materials on or about the Premises by Lessee by its agent, contractors or employees. In this regard, Lessor hereby waives the benefits of California Civil Code Section 1542 which provides as follows: "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release which if known by him must have materially have affected his settlement with debtor."

ADDENDUM

ADDED TO THE END OF PARAGRAPH 6: *Notwithstanding anything to the contrary in this Lease, (i) if possession of the Premises has not been delivered to Lessee for any reason whatsoever on or before March 1, 1997, Lessee shall not be obligated to pay rent for that period of time after the Rent Commencement Date equal to the number of days that possession of the Premises is delayed beyond March 1, 1997, and (ii) if possession of the Premises is not delivered to Lessee for any reason whatsoever on or before April 30, 1997 then Lessee may terminate this Lease by written notice to Lessor, whereupon any monies previously paid to Lessor by Lessee shall be reimbursed to Lessee and neither party shall have any further obligation to each other.

ADDITION TO PARAGRAPH 7:

*If Lessee notifies Lessor within such 45 day period that there are structural defects in the Premises, Lessor shall, at its cost, repair such structural defects.

ADDITIONS TO PARAGRAPH 9:

*Upon request, Lessor shall advise Lessee in writing whether it reserves the right to require Lessee to remove any such alterations, additions or improvements from the Premises upon expiration or sooner termination of this Lease. If Lessor elects not to reserve such right, then Lessee shall not be required to remove the initial tenant improvements which Lessee intends to construct in the Premises.

** ;provided however, that Lessee shall have the right to remove at any time any special purpose improvements installed in the Premises by Lessee at Lessee's cost including, without limitation, supplementary heating, ventilation and air conditioning systems and chillers for laboratory bench heat exchange. Lessee shall, upon removal of such special purpose improvements, return the Promises to its condition prior to their installation including all patching, cleaning and repainting if necessary.

ADDITION TO PARAGRAPH 10:

***In the event of fire or other casualty, paragraph 25, rather than this paragraph 10, shall govern the obligations of the parties with respect to the repair, maintenance and replacement of the Premises. Notwithstanding anything to the contrary in this Lease, Lessor, at its cost and expense, shall make any repair, maintenance or improvement (i) required as a result of a construction defect in the Premises as of the Commencement Date, and (ii) for which Lessor has a right of reimbursement from others (including, without limitation, insurers). Lessee shall have the benefit of any construction and/or equipment warranties existing in favor of Lessor that would assist Lessee in discharging Its obligations under this Lease.

1. If Lessee is required to replace an HVAC unit, plumbing line, main electrical panel or generator, it may instead elect to require Lessor to perform such Capital Repair.

2. The cost of any of the above replacements performed by Landlord, which is reimbursable by Lessee, shall be amortized over the useful life of the Capital Repair determined in accordance with generally accepted accounting principles with interest on the unamortized balance at the then prevailing market rate Lessor would pay if it borrowed funds to replace these units from an institutional lender. Lessor shall inform Lessee of the monthly amortization payment required to so amortize such costs, and shall also provide Lessee with the information upon which such determination is made. Tenant shall pay such amortized payment for each month during the term of the Lease after such improvement is completed until the first to occur of (i) the resetting of rent or the end of the term over which such costs were amortized. Such amortized amount shall be due at the same time that rent is due.

3. The cost of any Capital Repair performed by Lessor shall be shared by Lessee and Lessor as follows. Upon completion of the Capital Repair, Lessor shall notify Lessee of the total cost incurred by Lessor to complete the work and shall deliver to Lessee documentary support for such costs and lien waivers (or lien release bonds) for such work. Lessee shall be responsible for that portion of the cost incurred by Lessor for the Capital Repair times a fraction, the numerator of which shall be equal to the lesser of the months in the Lease term (a) until the resetting of monthly rent for the Premises based upon the fair market value of the Premises as so repaired or improved, or (b) the useful life of the capital repairs and the denominator shall be the months on the useful life of the capital repair.

4. For the purposes of this paragraph, a Capital Repair shall not include the resealing of the parking lot.

ADDITION TO PARAGRAPH 16:
- ------------------------

*which consent shall not be unreasonably withheld or delayed. Lessee shall have the right to place signs displaying the name and logo of Lessee in the present sign locations and on the entry doorways.

ADDITION TO PARAGRAPH 19:
- ------------------------

*Notwithstanding anything to the contrary in this Lease, (i) Lessee shall not be deemed to be in default or breach of this Lease on account of Lessee's failure to pay money to Lessor unless Lessee's failure to pay continues for ten (10) days after the first day of each month, and (ii) Lessee shall not be in default or breach of this Lease for failing to perform any covenant of this Lease (other than a covenant to pay money to Lessor) unless Lessee's failure to perform such covenant continues for a period of thirty (30) days after Lessee's receipt of written notice of such failure, or such longer time as may be reasonably required to cure the default so long as Lessee commences to cure such failure within thirty (30) day period and diligently prosecutes such cure to completion.

ADDITION TO PARAGRAPH 24:
- ------------------------

Lessor shall provide to Lessee twenty-four (24) hours' notice prior to its entry onto the Premises (except in the event of an emergency) and such entry shall be subject to Lessee's right to accompany Lessor at all times and Lessee's reasonable security precautions. Lessor shall ensure that reasonable

access to the Premises is available to Lessee at all times and shall use reasonable efforts to mitigate any interference with Lessee's business caused by Lessor's entry and work.

ADDITION TO PARAGRAPH 25:
- ------------------------

Landlord shall have the additional right to terminate the Lease in the event of a casualty which is not required hereunder to be covered by insurance or where insurance proceeds are not available to pay at least eighty percent (80%) of the replacement cost of the Building. Tenant shall have the additional right to terminate the Lease if restoration or repair of the Building would take longer than one hundred twenty (120) days.

ADDITION TO PARAGRAPH 26:
- ------------------------

*arising after the effective date of the transfer in question. Notwithstanding anything to the contrary in this Lease, Lessee may, without Lessor's prior written consent and without being subject to the terms of this paragraph 26 including, without limitation, Lessor's right to recapture the Premises and participate in assignment and subletting proceeds, sublease the Premises or assign the Lease to: (i) a corporation controlling, controlled by or under common control with Lessee; (ii) a successor corporation related to Tenant by merger, consolidation or nonbankruptcy reorganization; or (iii) a purchaser of substantially all of the assets of Lessee.

ADDITION TO PARAGRAPH 14:
- ------------------------

If Lessee is required to make any capital repairs to this paragraph 14 then the provisions of paragraph 10 with regard to capital repairs shall apply. The paragraph 14 shall not apply to any requirement regarding any Hazardous Material.

[LETTERHEAD OF IRIDEX CORPORATION]

May 7, 1997

Mr. George McKee
Zappettini Investment Co.
2500 El Camino Real
Palo Alto, CA 94306

Re: 1212 Terra Bella, Mountain View; waiver of part of paragraph 26 of the Lease

Dear George:

Per our phone conversation on Wednesday, April 30, you agreed to waive the second sentence of paragraph 26 of the Lease (between Zappettini Investment Co. and Iridex Corporation, dated the 6th day of December, 1996) and not require Iridex Corporation to make any payments to Zappettini Investment Co. on account of rents collected from a subtenant. The second sentence of Paragraph 26 states:

> "As a condition for granting its consent to any subletting, the Lessor may require the Lessee to agree to pay to Lessor, as additional rental, 50% of all rents received by the Lessee from its Sublessee after deductions for brokerage commissions which are in excess of the amount payable by the Lessee to the Lessor hereunder."

Please document your waiver of this sentence from the aforementioned Lease by signing below* and returning a signed original of this letter to our offices at 340 Pioneer Way, Mountain View CA 94041.

Thank you for your attention to this matter.

Yours sincerely,

/s/ROBERT KAMENSKI
- ----------
Robert Kamenski
Vice President of Finance and Administration

*Agreement to Waiver:

/s/GEORGE O. MCKEE
- ----------
George McKee
General Partner
Zappettini Investment Co.

November 26, 2001

EXERCISE OF OPTION

Re: Paragraph 35 (Additional Paragraphs) of that certain Lease dated December 6th 1996 by and between Zappettini Investment Co., Lessor, Iridex Corporation, Lessee, for an approximately 37,166 square foot industrial building commonly referred to as 1212 Terra Bella Avenue, Mountain View, California.

Lessee hereby exercises its option to renew the above described Lease for an additional two (2) year term commencing March 1st 2002 and terminating on February 29th 2004. All the terms and conditions of the original Lease shall be in full force and effect excepting the rental amount which shall be as follows:

March 1, 2002 through February 28, 2003. . . . Fifty Five Thousand Seven Hundred Forty Nine and No/100ths Dollars ($55,749.00).

March 1, 2003 through February 29th 2004 . . . Fifty Seven Thousand Six Hundred Seven and 30/100ths Dollars ($57,607.30).

LESSOR:	LESSEE:
ZAPPETTINI INVESTMENT CO.	IRIDEX CORPORATION
/s/GEORGE O. MCKEE	/s/ROBERT KAMENSKI
/s/ALLEN M. KARING	
Date: November 26, 2001	Date: November 26, 2001

September 15, 2003

LEASE AMENDENT AND EXTENSION

Re: That certain Lease for 1212 Terra Bella Avenue, Mountain View, California dated December 6th, 1996 by and between Zappettini Investment Co., Lessor and Iridex Corporation, Lessee, as amended by the Letter dated May 7, 1997 regarding Paragraph 26, and that certain Exercise of Option dated November 26th 2001.

The above referenced Lease and Exercise of Option is hereby amended and extended as follows:

Paragraph 3 Term. The termination dated shall be February 28th 2009 rather than February 29th 2004.

Paragraph 4 Rent. Commencing October 1st 2003 the monthly rental shall be as follows:

October 1, 2003 - February 28, 2005	$31,591.10/mo net
March 1, 2005 - February 28, 2006	$32,633.60/mo net
March 1, 2006 - February 28, 2007	$33,710.51/mo net
March 1, 2007 - February 28, 2008	$34,822.96/mo net
March 1, 2008 - February 28, 2009	$35,972.12/mo net

Paragraph 10
Maintenance
Of Premises. Lessor shall, at its sole cost, be responsible for the maintenance of the roof, A/C system, landscaping and parking lot. All the other provisions of this Paragraph 10 in the Lease shall be in full force and effect.

In consideration of the above, Lessee agrees to pay to Lessor the additional sum of $2,000.00/mo.

Paragraph 35
Option to Renew. The option paragraph shall read as follows:

Lessor grants to Lessee a five (5) year option to renew this lease. The option period shall commence on the termination date of this lease and terminate on February 28th 2014. The option terms shall be governed by all the terms and conditions as are contained in the above described lease excepting that there shall be no additional options and also excepting the basic monthly rental. The basic monthly rental amount for the option term shall be negotiated

between Lessor and Lessee at the time the option is exercised and shall be based on 98% of the then market rent for the premises based on similar space within a one mile radius of the subject property. In no event, however, shall the monthly rental for the option term be less than $35,972.12. In order to exercise the option, the Lessee must give Lessor written notice a minimum of 90 days and a maximum of 120 days prior to the termination of the above described Lease Addendum and Extension period. At the option of the Lessor, any of the above terms to renew may be declared null and void if the Lessee is in default under any of the terms or conditions of the Lease when said option was exercised.

Except as amended hereby, all terms and conditions of the Lease shall remain in full force and effect.

LESSOR: ZAPPETTINI INVESTMENT CO.	LESSEE: IRIDEX CORPORATION
By: /s/ GEORGE O. MCKEE	By: /s/ A. LARRY TANNENBAUM
Its: GENERAL MANAGING PARTNER	Its: CFO
Date: September 29, 2003	Date: September 26, 2003

By: /s/ ALLEN M. KARING

Its:

Date: September 29, 2003

EXHIBIT 31

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
RULES 13A - 14(A) AND 15D - 14(A) PROMULGATED UNDER
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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2003

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

EXHIBIT 32

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 September 27, 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

Date: November 12, 2003

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 September 27, 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

Date: November 12, 2003