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 28, 2002

[ ] 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, 2002 was 6,902,248.

IRIDEX Corporation
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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

IRIDEX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	SEPTEMBER 28, 2002	DECEMBER 29, 2001
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,375	$ 4,613
Available-for-sale securities	3,075	4,489
Accounts receivable, net	7,290	8,066
Inventories	11,719	12,562
Prepaids and other current assets	428	599
Total current assets	29,887	30,329
Property and equipment, net	1,072	1,535
Deferred income taxes	2,479	1,924
Total assets	$ 33,438	$ 33,788
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 795	$ 1,176
Accrued expenses	3,057	2,779
Total liabilities	3,852	3,955
Stockholders' equity:		
Common stock	70	69
Additional paid-in capital	23,617	23,417
Accumulated other comprehensive income	3	3
Treasury stock	(430)	(430)
Retained earnings	6,326	6,774
Total stockholders' equity	29,586	29,833
Total liabilities and stockholders' equity	$ 33,438	$ 33,788

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 28, 2002	SEPTEMBER 29, 2001	SEPTEMBER 28, 2002	SEPTEMBER 29, 2001
Sales	$ 6,717	$ 6,750	$ 21,113	$ 19,573
Cost of sales	3,705	3,252	11,895	10,015
Gross Profit	3,012	3,498	9,218	9,558
Operating expenses:				
Research and development	919	1,196	3,384	3,684
Sales, general and administrative	2,098	2,309	6,897	7,731
Total operating expenses	3,017	3,505	10,281	11,415
Operating loss from continuing operations	(5)	(7)	(1,063)	(1,857)
Other income (expense), net	(31)	88	66	348
Income (loss) from continuing operations before benefit from (provision for) income taxes	(36)	81	(997)	(1,509)
Benefit from income taxes.	242	90	549	766
Income (loss) from continuing operations	206	171	(448)	(743)
Loss from discontinued operations (net of applicable income tax benefit of $-, $-, $- and $542, respectively)	-	-	-	(893)
Net income (loss).	$ 206	$ 171	$ (448)	$ (1,636)
Income (loss) from continuing operations per common share-basic	$ 0.03	$ 0.03	$ (0.07)	$ (0.11)
Loss from discontinued operations per common share-basic	-	-	-	(0.13)
Net income (loss) per common share-basic	$ 0.03	$ 0.03	$ (0.07)	$ (0.24)
Income (loss) from continuing operations per common share-diluted	$ 0.03	$ 0.02	$ (0.07)	$ (0.11)
Loss from discontinued operations per common share-diluted	-	-	-	(0.13)
Net income (loss) per common share-diluted	$ 0.03	$ 0.02	$ (0.07)	$ (0.24)
Shares used in per common share basic calculations	6,875	6,771	6,858	6,741
Shares used in per common share diluted calculations	6,938	6,892	6,858	6,741

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 28, 2002	SEPTEMBER 29, 2001
Cash flows from operating activities:		
Net loss	$ (448)	$ (1,636)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Discontinued operations	-	893
Depreciation and amortization	652	604
Provision for inventories	18	4
Provision for doubtful accounts	(56)	(31)
Deferred income taxes	(555)	-
Changes in operating assets and liabilities:		
Accounts receivable	832	1,441
Inventories	825	(3,014)
Prepaids and other current assets	171	258
Accounts payable	(381)	(137)
Accrued expenses	278	(1,039)
Net cash provided by (used in) operating activities	1,336	(2,657)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(3,075)	(4,496)
Proceeds from maturity of available-for-sale securities	4,489	2,992
Acquisition of property and equipment	(189)	(364)
Net cash provided by (used in) investing activities	1,225	(1,868)
Cash flows from financing activities:		
Issuance of common stock	201	291
Purchase of treasury stock	-	(41)
Net cash provided by financing activities	201	250
Net increase (decrease) in cash and cash equivalents	2,762	(4,275)
Cash and cash equivalents at beginning of period	4,613	9,998
Cash and cash equivalents at end of period	$ 7,375	$ 5,723
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 28, 2002	SEPTEMBER 29, 2001	SEPTEMBER 28, 2002	SEPTEMBER 29, 2001
Net income (loss)	$ 206	$ 171	$ (448)	$ (1,636)
Other comprehensive income (loss):				
Change in unrealized income (loss) on available-for-sale securities	5	(2)	-	(4)
Comprehensive income (loss)	$ 211	$ 169	$ (448)	$ (1,640)

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

IRIDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of IRIDEX Corporation 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 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 29, 2002 (as amended on Form 10K/A on April 10, 2002). The results of operations for the three month and nine month periods ended September 28, 2002 are not necessarily indicative of the results for the year ending December 28, 2002 or any future interim period.

2. INVENTORIES (IN THOUSANDS):

	SEPTEMBER 28, 2002	DECEMBER 29, 2001
	(unaudited)	
Raw materials and work in progress	$ 7,196	$ 8,078
Finished goods	4,523	4,484
Total inventories.	$ 11,719	$ 12,562

3. COMPUTATIONS OF NET INCOME (LOSS) PER COMMON SHARE:

Basic and diluted net income (loss) per 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 income (loss) per 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 per share amounts):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 28, 2002	SEPTEMBER 29, 2001	SEPTEMBER 28, 2002	SEPTEMBER 29, 2001
	(unaudited)		(unaudited)	
Numerator				
Income (loss) from continuing operations.	$ 206	$ 171	$ (448)	$ (743)
Income (loss) from discontinued operations.	-	-	-	(893)
Net income (loss)	$ 206	$ 171	$ (448)	$ (1,636)
Denominator - Basic				
Weighted average common stock outstanding.	6,875	6,771	6,858	6,741
Basic income (loss) per share from continuing operations. . .	$ 0.03	$ 0.03	$ (0.07)	$ (0.11)
Basic income (loss) per share from discontinued operations. .	-	-	-	(0.13)
Basic income (loss) per share	$ 0.03	$ 0.03	$ (0.07)	$ (0.24)
Denominator - Diluted				
Weighted average common stock outstanding.	6,875	6,771	6,858	6,741
Effect of dilutive securities				
Weighted average common stock options.	63	121	-	-
Total weighted average stock and options outstanding.	6,938	6,892	6,858	6,741
Diluted income (loss) per share from continuing operations. .	$ 0.03	$ 0.02	$ (0.07)	$ (0.11)
Diluted income (loss) per share from discontinued operations.	-	-	-	(0.13)
Diluted income (loss) per share	$ 0.03	$ 0.02	$ (0.07)	$ (0.24)

During the three months ended September 28, 2002 and September 29, 2001, options to purchase 1,498,924 shares and 1,524,166 shares at weighted average exercise prices of $5.61 and $5.82 per share were outstanding, but were not included in the computations of diluted net income per common share because the exercise price of the related options exceeded the average market price of the common shares. For the nine months ended September 28, 2002 and September 29, 2001 options to purchase 1,751,893 shares and 1,720,660 shares at weighted average prices of $5.15 and $5.31 per share were outstanding but not included in the computations of diluted net loss per share because their effect was antidilutive. These options could dilute earnings per share in future periods.

4. DISCONTINUED OPERATIONS

In April 2001, management decided to discontinue the Laser Research segment. There were no revenues, costs or expenses for this segment for both the three month periods ended September 28, 2002 and September 29, 2001, respectively. The total loss on discontinued operations of $893,000 (net of a $542,000 income tax benefit) was recorded in the first quarter of 2001. No assets or liabilities of the Laser Research segment remain and no proceeds are expected from the disposition of this segment.

The Laser Research segment conducted research and development under research grants from the U.S. Federal Government and others. We discontinued our Laser Research activities to better focus available resources on our medical applications and products. The assets of the segment, primarily inventory, were fully reserved and the liabilities were fully paid. The components of the recorded loss were inventory costs

of $0.7 million, the loss on operations for the first quarter of 2001 of $0.3 million, sales return costs of $0.2 million, estimated costs for the phase-out period of $0.1 million, purchase order commitments of $0.1 million offset by a tax benefit of $0.5 million. In the fourth quarter of 2001, the accrued loss for the discontinuation of the segment was adjusted to reflect fewer than anticipated product returns.

5. BUSINESS SEGMENTS (UNAUDITED)

We operate in two reportable segments: the ophthalmology medical device segment and the aesthetics 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 months ended September 28, 2002 and September 29, 2001 and for the nine months ended September 28, 2002 and September 29, 2001 is as follows (in thousands):

	Three Months Ended September 28, 2002			Three Months Ended September 29, 2001		
	Ophthalmology Medical Devices	Aesthetics Medical Devices	Total	Ophthalmology Medical Devices	Aesthetics Medical Devices	Total
Sales	$ 5,416	$ 1,301	$ 6,717	$ 4,771	$ 1,979	$ 6,750
Direct Cost of Goods Sold	1,713	562	2,275	1,562	816	2,378
Direct Gross Margin	3,703	739	4,442	3,209	1,163	4,372
Total Unallocated Costs			(4,478)			(4,291)
Pre-tax income (loss)			(36)			81

	Nine Months Ended September 28, 2002			Nine Months Ended September 29, 2001		
	Ophthalmology Medical Devices	Aesthetics Medical Devices	Total	Ophthalmology Medical Devices	Aesthetics Medical Devices	Total
Sales	$ 16,172	$ 4,941	$ 21,113	$ 14,845	$ 4,728	$ 19,573
Direct Cost of Goods Sold	5,182	2,163	7,345	4,776	1,825	6,601
Direct Gross Margin	10,990	2,778	13,768	10,069	2,903	12,972
Total Unallocated Costs			(14,765)			(14,481)
Pre-tax income (loss)			(997)			(1,509)

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

Our assets and liabilities are not evaluated on a segment basis. Accordingly, no disclosure on segment assets and liabilities is provided.

6. RECENT ACCOUNTING PRONOUNCEMENTS

On April 30, 2002, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 145 (SFAS 145), Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. FAS No. 145 rescinds both FASB Statement No. 4 (SFAS No. 4), Reporting Gains

and Losses from Extinguishment of Debt, and the amendment to FAS No. 4, FASB Statement No. 64 (SFAS 64), Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. Through this rescission, FAS 145 eliminates the requirement (in both SFAS No. 4 and SFAS No. 64) that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. However, an entity is not prohibited from classifying such gains and losses as extraordinary items, so long as it meets the criteria in paragraph 20 of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. Further, SFAS No. 145 amends paragraph 14(a) of FASB Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the accounting for sale-leaseback transactions and certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The amendment requires that a lease modification (1) results in recognition of the gain or loss in the financial statements, (2) is subject to FASB Statement No. 66, Accounting for Sales of Real Estate, if the leased asset is real estate (including integral equipment), and (3) is subject (in its entirety) to the sale-leaseback rules of FASB Statement No. 98, Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases. Generally, FAS 145 is effective for transactions occurring after May 15, 2002. We do not expect that the adoption will have a material effect on our financial performance or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Exit or Disposal Activities" ("SFAS 146"). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for under EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The scope of SFAS No. 146 also includes costs related to terminating a contract that is not a capital lease and termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 will be effective for exit or disposal activities that are initiated after December 31, 2002 and early application is encouraged. We will adopt SFAS No. 146 during the first quarter of 2003. The provisions of EITF No. 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF No. 94-3 prior to the adoption of SFAS No. 146. The effect on adoption of SFAS No. 146 will change on a prospective basis the timing of when the restructuring charges are recorded from a commitment date approach to when the liability is incurred.

ITEM 2.

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

This Quarterly Report on Form 10-Q contains trend analysis and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, such as statements relating to levels of future sales and operating results, actual order rate and market acceptance of our new and existing products; expectations for future sales growth, generally, and the potential for production cost decreases and higher gross margins; levels of future investment in research and development efforts; favorable Center for Medicare and Medicaid coverage decisions regarding Age Related Macular Degeneration, or AMD, procedures that use our products; results of clinical studies and risks associated with bringing new products to market, general economic conditions and levels of international sales. In some cases, forward-looking statements can be identified by terminology, such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "continue," or the negative of such terms or other comparable terminology. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to differ materially from those expressed or implied by such forward-looking statements, including as a result of the factors set forth in this Quarterly Report under "Factors That May Affect Future Results" and other risks detailed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2002, as amended on Form 10K/A on April 10, 2002, and detailed from time to time in our Company's 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 for the periods indicated.

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 28, 2002	SEPTEMBER 29, 2001	SEPTEMBER 28, 2002	SEPTEMBER 29, 2001
	(unaudited)		(unaudited)	
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	55.2	48.2	56.3	51.2
Gross profit	44.8	51.8	43.7	48.8
Operating expenses:				
Research and development	13.7	17.7	16.0	18.8
Sales, general and administrative	31.2	34.2	32.7	39.5
Total operating expenses	44.9	51.9	48.7	58.3
Operating loss from continuing operations	(0.1)	(0.1)	(5.0)	(9.5)
Other income (expense), net	(0.4)	1.3	0.3	1.8
Income (loss) from continuing operations before benefit from income taxes	(0.5)	1.2	(4.7)	(7.7)
Benefit from income taxes	3.6	1.3	2.6	3.9
Income (loss) from continuing operations	3.1	2.5	(2.1)	(3.8)
Loss from discontinued operations (net of applicable income tax benefit)	0.0	0.0	0.0	(4.6)
Net income (loss)	3.1%	2.5%	(2.1)%	(8.4)%

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

	Three Months Ended				Nine Months Ended			
	September 28, 2002		September 29, 2001		September 28, 2002		September 29, 2001	
	(unaudited)				(unaudited)			
	Amount	Percentage of total sales	Amount	Percentage of total sales	Amount	Percentage of total sales	Amount	Percentage of total sales
Domestic	$ 4,471	66.6%	$ 4,264	63.2%	$13,214	62.6%	$ 11,424	58.4%
International	2,246	33.4%	2,486	36.8%	7,899	37.4%	8,149	41.6%
Total	$ 6,717	100.0%	$ 6,750	100.0%	$21,113	100.0%	$ 19,573	100.0%
Ophthalmology:								
Domestic	$ 3,175	47.3%	$ 2,699	40.0%	$ 9,212	43.6%	$ 7,714	39.4%
International	2,241	33.3%	2,072	30.7%	6,960	33.0%	7,131	36.4%
Total	$ 5,416	80.6%	$ 4,771	70.7%	$16,172	76.6%	$ 14,845	75.8%
Aesthetics:								
Domestic	$ 1,296	19.3%	$ 1,565	23.2%	$ 4,002	19.0%	$ 3,710	19.0%
International	5	.1%	414	6.1%	939	4.4%	1,018	5.2%
Total	$ 1,301	19.4%	$ 1,979	29.3%	$ 4,941	23.4%	$ 4,728	24.2%

Combined Ophthalmology and Aesthetics Sales

Sales for the three months ended September 28, 2002 and September 29, 2001 were $6.7 million. On a segment basis, the $0.6 million increase in sales of our ophthalmology products was offset by a $0.7 million decrease in sales of aesthetics products. Sales for the nine months ended September 28, 2002 increased 7.9% to $21.1 million from $19.6 million for the nine months ended September 29, 2001. The overall increase for the nine month period was driven by a $1.3 million increase in sales of our ophthalmology products and a $0.2 million increase in sales of our aesthetics products.

Ophthalmology Sales

Ophthalmology sales increased 13.5% to $5.4 million for the three months ended September 28, 2002 from $4.8 million for the three months ended September 29, 2001. For the three month period ended September 28, 2002 domestic ophthalmology sales increased 17.6% to $3.2 million from $2.7 million for the comparable prior year three month period. Domestic ophthalmology sales increased during this period mainly as a result of a $0.3 million increase in unit sales of delivery devices and a $0.3 million increase in sales of laser consoles, offset, in part, by lower domestic average selling prices of $0.1 million. International ophthalmology sales increased 8.2% to $2.2 million for the three months ended September 28, 2002 from $2.1 million for the comparable prior year three month period. International ophthalmology sales increased during this period due to a $0.1 million increase in unit sales of laser consoles and higher international average selling prices of $0.1 million.

For the nine months ended September 28, 2002, ophthalmology sales increased 8.9% to $16.2 million from $14.8 million for the comparable prior year nine month period. Domestic ophthalmology sales during this period increased 19.4% to $9.2 million from $7.7 million for the comparable prior year nine month period. Domestic ophthalmology sales increased during this period due to a $0.8 million increase in unit sales of delivery devices and a $0.8 million increase in unit sales of laser consoles offset, in part, by lower domestic average selling prices of $0.3 million. Our ophthalmic product sales have been impacted by declining average selling prices that may also affect our level of sales in the future due to changes in product mix, competitive pricing pressures, new product introductions by us or our competitors or other factors. 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." International ophthalmology sales during the nine month period ended September 28, 2002 decreased 2.4% to $7.0 million from $7.1 million for the comparable prior year nine month period. International ophthalmology sales decreased during this period due primarily to a $0.2 million decrease in unit sales of laser consoles.

Aesthetics Sales

Aesthetics sales decreased 34.3% to $1.3 million for the three months ended September 28, 2002 from $2.0 million for the three months ended September 29, 2001. For the three month period ended September 28, 2002 domestic aesthetic sales decreased 17.2% to $1.3 million from $1.6 million for the comparable prior year three month period. Domestic aesthetic sales decreased during this period due to a $0.3 million decrease in unit sales of the Apex 800 laser system and lower domestic average selling prices of $0.1 million. The decrease in Apex sales was due primarily to the backlog of orders that was shipped to launch the product in July 2001. International aesthetic sales decreased to $5,000 for the three months ended September 28, 2002 from $0.4 million for the comparable prior year three month period. The decrease in international sales for this period was due primarily to worldwide economic uncertainty. As a result, we are reevaluating our international distribution channels for certain markets for our aesthetic products.

For the nine months ended September 28, 2002 aesthetic sales increased 4.5% to $4.9 million from $4.7 million for the comparable prior year nine month period. Domestic aesthetic sales during this period increased 7.8% to $4.0 million from $3.7 million for the comparable prior year nine month period. Domestic aesthetic sales increased during this period due to $0.4 million in increased unit sales of Apex laser systems, offset, in part, by a $0.1 million decrease in unit sales of DioLite laser systems and lower domestic average selling prices of $0.1 million. International aesthetic sales during the nine month period

ended September 28, 2002 decreased 7.8% to $0.9 million from $1.0 million for the comparable prior year nine month period. International aesthetic sales decreased during this period due to a $0.5 million decrease in unit sales of DioLite laser systems offset, in part, by a $0.3 million increase in unit sales of Apex laser systems. Our aesthetics product sales continue to be affected by the current weak economic conditions and because aesthetic procedures are typically elective procedures that are deferred by patients in difficult economic times. See "-Factors that May Affect Future Results - Our Business has been adversely Impacted by the Current Worldwide Economic Slowdown and Related Uncertainties."

Gross Profit. Our gross profit decreased 13.9% to $3.0 million for the three months ended September 28, 2002 compared to $3.5 million for the three months ended September 29, 2001. Gross profit as a percentage of sales for the three months ended September 28, 2002 decreased to 44.8% from 51.8% for the comparable prior year three month period. Of the total 7.0% decrease in gross profit as a percentage of sales during this period, 7.3% resulted from the beneficial impact of updated manufacturing cost and inventory valuation estimates during the three months ended September 29, 2001. These updated estimates included 3.7% for inventory burden and 3.6% for inventory valuation. Partially offsetting these impacts was a 0.3% increase in gross margin as a percentage of sales related to factors occurring in the three-month period ended September 28, 2002. These factors included an increase of 0.8% in gross margin as a percentage of sales related to a higher proportion of sales with higher profit margins, a 0.4% increase due to lower standard costs to build our products and 0.4% due to various other factors offset, in part, by a 1.3% decrease resulting from net lower average selling prices for our products.

For the nine-months ended September 28, 2002, gross profit decreased 3.6% to $9.2 million compared to $9.6 million for the nine-months ended September 29, 2001. Gross profit as a percentage of sales for the nine-month period ended September 28, 2002 decreased to 43.7% as compared to 48.8% for the comparable prior year period. The total decrease in gross profit as a percentage of sales during this period of 5.1% consisted of a 2.3% decrease due to the beneficial impact of updated manufacturing cost and inventory valuation estimates during the nine-months ended September 29, 2001, 1.8% from net lower average selling prices of our products, 0.9% from the increase in warranty costs related to a change in estimate, and 0.6% due to additional lower margin sales of the Apex hair removal laser system offset, in part by a 0.5% increase due to lower standard costs to build our products. The change in estimate related to warranty costs resulted from the separation of manufacturing and service functions during the three-month period ended June 29, 2002, which provided management with more precise data upon which to determine warranty cost estimates. Although increasing competition has continued to result in a downward trend in average selling prices for some products, we intend to continue our efforts to reduce the cost of components and 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." 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 Fluctuate from Quarter to Quarter and Year to Year."

Research and Development. Our research and development expenses decreased by 23.2% to $0.9 million for the three months ended September 28, 2002 from $1.2 million for the three months ended September 29, 2001. Research and development expenses decreased as a percentage of sales to 13.7% for the three months ended September 28, 2002 from 17.7% for the comparable prior year three-month period. Research and development expenses decreased by 8.1% to $3.4 million for the nine months ended

September 28, 2002 from $3.7 million for the nine months ended September 29, 2001. As a percentage of sales, research and development expense decreased to 16.0% for the nine months ended September 28, 2002 from 18.8% for the comparable prior year nine month period. The decrease in research and development expense in absolute dollars and as a percentage of sales for both the three and nine month periods ended September 28, 2002 was due primarily to reductions in headcount of $0.2 million and reductions in project spending of $0.1 million primarily from the completion of development work on the Apex hair removal laser system in 2001.

Sales, General and Administrative. Our sales, general and administrative expenses decreased by 9.1% to $2.1 million for the three months ended September 28, 2002 from $2.3 million for the three months ended September 29, 2001. As a percentage of sales, sales, general and administrative expenses decreased to 31.2% for the three months ended September 28, 2002 from 34.2% for the comparable prior year three-month period. The decrease in sales, general and administrative expense in absolute dollars and as a percentage of sales for the three month period ended September 28, 2002 was due primarily to $0.2 million in employee-related cost savings. For the nine months ended September 28, 2002, sales, general and administrative expenses decreased by 10.8% to $6.9 million from $7.7 million for the comparable period in 2001. Sales, general and administrative expenses as a percentage of sales decreased to 32.7% for the nine months ended September 28, 2002 from 39.5% for the comparable period in 2001. The decrease in absolute dollars and as a percentage of sales for the nine month period ended September 28, 2002 was due primarily to reduced spending on marketing programs of $0.4 million, reduced headcount of $0.2 million and a reduction in insurance and various other costs of $0.2 million.

Other Income(Expense). For the three months ended September 28, 2002 we had net other expense of $0.03 million as compared with net other income of $0.09 million for the three months ended September 29, 2001. The change in other income (expense) for this period was due primarily to the accrual of $0.09 million in interest expense on an accrued liability. For the nine months ended September 28, 2002 net other income was $0.07 million as compared to net other income of $0.30 million for the nine months ended September 29, 2001. The decrease in net other income for this period was due primarily to a decrease in interest income.

Income Taxes. The effective income tax rate for all periods presented is in excess of statutory rates primarily due to the magnified impact of tax credits as taxable income is near break-even levels.

Discontinued Operations. In April 2001, management decided to discontinue the Laser Research segment. There were no revenues, costs or expenses for this segment for either of the three month periods ended September 28, 2002 and September 29, 2001, respectively. The total loss on discontinued operations of $893,000 (net of a $542,000 income tax benefit) was recorded in the first quarter of 2001. No assets or liabilities of the Laser Research segment remain and no proceeds are expected from the disposition of this segment.

The Laser Research segment conducted research and development under research grants from the U.S. Federal Government and others. We discontinued our Laser Research activities to better focus available resources on our medical applications and products. The assets of the segment, primarily inventory, were fully reserved and the liabilities were fully paid. The components of the recorded loss were inventory costs of $0.7 million, the loss on operations for the first quarter of 2001 of $0.3 million, sales return costs of $0.2

million, estimated costs for the phase-out period of $0.1 million and purchase order commitments of $0.1 million offset by a tax benefit of $0.5 million. In the fourth quarter of 2001, the accrued loss for the discontinuation of the segment was adjusted to reflect fewer than anticipated product returns.

LIQUIDITY AND CAPITAL RESOURCES

At September 28, 2002, our primary sources of liquidity included cash and cash equivalents and available-for-sale securities in the aggregate amount of $10.5 million. In addition, we have available $4 million under our unsecured line of credit which bears interest at the bank's prime rate and expires in October 2003. As of September 28, 2002, no borrowings were outstanding under this credit facility. We expect to renew the line of credit in October 2003 assuming that the terms continue to be acceptable.

During the nine months ended September 28, 2002, we generated $2.8 million in cash and cash equivalents. During this period, operating activities provided $1.3 million of cash. Sources of cash from operating activities included a decrease in net accounts receivable of $0.8 million, a decrease in net inventories of $0.8 million, depreciation of $0.7 million, an increase in accrued expenses of $0.3 million and a decrease in prepaid expenses of $0.2 million offset by uses of cash including an increase in the deferred income tax asset of $0.5 million, a net loss of $0.4 million and a decrease in accounts payable of $0.4 million. The decrease in accounts receivable resulted primarily from increased collection efforts. The decrease in inventory and accounts payable was due mainly to implementation of an inventory reduction program, whereby inventory purchases were reduced.

Investing activities provided $1.2 million in cash and cash equivalents during the nine months ended September 28, 2002, primarily due to net proceeds from maturity of available for sale securities of $1.4 million offset by $0.2 million for the acquisition of property and equipment.

Net cash provided by financing activities during the nine months ended September 28, 2002 was $0.2 million which consisted of the issuance of common stock under employee stock option plans and the employee stock purchase plan.

We believe that, based on current estimates, our cash, cash equivalents and available-for-sale securities together with cash generated from operations and our credit facility will be sufficient to meet our anticipated cash requirements for the next 12 months. However, if the current economic downturn remains protracted, we may need to expend our cash reserves to fund our operations. Our liquidity could be negatively affected by a continued 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."

In December 1998, we instituted a stock repurchase program whereby up to 150,000 shares of our common stock may be repurchased in the open market. We plan to utilize all of the reacquired shares for reissuance in connection with employee stock programs. No shares were repurchased during the nine months ended September 28, 2002. To date, we have purchased 103,000 shares of our common stock under this program.

CRITICAL ACCOUNTING POLICIES

The preparation of our condensed consolidated financial statements in conformity with United States Generally Accepted Accounting Principles (GAAP) requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, net sales and expenses, and the related disclosures. We base our estimates on historical experience, our knowledge of economic and market factors and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies are affected by significant estimates, assumptions and judgments used in the preparation of our condensed consolidated financial statements.

Revenue Recognition.

Revenue from product sales is recognized upon receipt of a purchase order and product shipment provided no significant obligations remain and collection of the receivables is deemed probable. Shipments are generally made with Free-On-Board (FOB) shipping point terms, whereby title passes upon shipment from our dock. Any shipments with FOB receiving point terms are recorded as revenue when the shipment arrives at the receiving point. Up-front fees received in connection with product sales are deferred and recognized over the associated product shipments.

Sales Return Allowance and Allowance for Doubtful Accounts.

In the process of preparing financial statements we must make estimates and assumptions that affect the reported amount of assets and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Specifically, we must estimate future product returns related to current period product revenue. We analyze historical returns, current economic trends and changes in customer demand and acceptance of our products when evaluating the adequacy of the sales returns allowance and other allowances. Significant management judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. Material differences may result in the amount and timing of our revenue for any period if management made different judgments or utilized different estimates. Similarly our management must make estimates of the collectibility of our accounts receivable. Management specifically analyzes accounts receivable and analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Our accounts receivable balance was $7.3 million, net of allowance for doubtful accounts of $0.3 million as of September 28, 2002.

Inventories.

Inventories are stated at the lower of cost or market. Cost is determined on a standard cost basis which approximates actual cost on a first-in, first-out (FIFO) method. Lower of cost or market is evaluated by considering obsolescence, excessive levels of inventory, deterioration and other factors.

Income Taxes.

Income taxes are accounted for under Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred assets and liabilities are recognized for the

future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Warranty Reserves.

We provide reserves for the estimated costs of product warranties at the time revenue is recognized. We estimate the costs of our warranty obligations based on our historical experience of known product failure rates, use of materials, labor and service delivery costs incurred in correcting product failures. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise. Should our actual experience relative to these factors differ from our estimates, we may be required to record additional warranty reserves. Alternatively, if we provide more reserves than we need, we may reverse a portion of such provisions in future periods.

RECENT ACCOUNTING PRONOUNCEMENTS

On April 30, 2002, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 145 (SFAS 145), Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. FAS No. 145 rescinds both FASB Statement No. 4 (SFAS No. 4), Reporting Gains and Losses from Extinguishment of Debt, and the amendment to FAS No. 4, FASB Statement No. 64 (SFAS No. 64), Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. Through this rescission, FAS No. 145 eliminates the requirement (in both SFAS No. 4 and SFAS No. 64) that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. However, an entity is not prohibited from classifying such gains and losses as extraordinary items, so long as it meets the criteria in paragraph 20 of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. Further, SFAS No. 145 amends paragraph 14(a) of FASB Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the accounting for sale-leaseback transactions and certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The amendment requires that a lease modification (1) results in recognition of the gain or loss in the financial statements, (2) is subject to FASB No. Statement No. 66, Accounting for Sales of Real Estate, if the leased asset is real estate (including integral equipment), and (3) is subject (in its entirety) to the sale-leaseback rules of FASB Statement No. 98, Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases. Generally, FAS No. 145 is effective for transactions occurring after May 15, 2002. We do not expect that the adoption will have a material effect on its financial performance or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for under EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The scope of SFAS

No. 146 also includes costs related to terminating a contract that is not a capital lease and termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 will be effective for exit or disposal activities that are initiated after December 31, 2002 and early application is encouraged. We will adopt SFAS No. 146 during the first quarter of 2003. The provision of EITF No. 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF No. 94-3 prior to the adoption of SFAS No. 146. The effect on adoption of SFAS No. 146 will change on a prospective basis the timing of when the restructuring charges are recorded from a commitment date approach to when the liability is incurred.

FACTORS THAT MAY AFFECT FUTURE RESULTS

We Rely on Continued Market Acceptance of Our Existing Products. We currently market visible and infrared light semiconductor-based photocoagulator medical laser systems to the ophthalmic market. We also market a visible and infrared light semiconductor-based photocoagulator medical laser system to the aesthetics 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, procedures and price;
- Recommendations and opinions by ophthalmologists and dermatologists;
- Performance of these laser systems and treatments which are a beneficial alternative to competing technologies and treatments;
- The willingness of ophthalmologists and dermatologists to convert to semiconductor-based or infrared laser systems from alternative technologies; and
- The level of reimbursement for treatments administered with our products.

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

We Face Strong Competition in Our Markets and Expect the Level of Competition to Grow in the Foreseeable Future. Competition in the market for devices used for ophthalmic and aesthetics treatments is intense and is expected to increase. This market is also characterized by rapid technological innovation and change and our products could be rendered obsolete as a result of future innovations. Our competitive position depends on a number of factors including product performance, characteristics and functionality, ease of use, scalability, durability and cost. Our principal competitors in ophthalmology are Lumenis Ltd., Nidek, Inc., Carl Zeiss, Inc., Alcon International and Quantel. All of these companies currently offer a competitive semiconductor-based laser system in ophthalmology. Our principal competitors in aesthetics are Lumenis Ltd., Laserscope, Candela Corporation and Altus Medical Inc. 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 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 Development of 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 Millenium EndoLase module, which we manufacture to be included in Bausch & Lomb's Millenium Microsurgical System. Introduction 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 existence of competing products and general economic conditions affecting purchasing patterns. Our ability to market and sell new products may also be subject to government regulation, including approval by the United States Food and Drug Administration, or FDA, and foreign government agencies. Any failure in our ability to successfully develop and introduce new products or enhanced versions of existing products and achieve market acceptance of new products and new applications could have a material adverse effect on our operating results and would cause our net revenues to decline.

Our Business Has Been Adversely Impacted By the Worldwide Economic Slowdown and Related Uncertainties. Weaker economic conditions worldwide, particularly in the U.S., have contributed to the current slowdown in our business in general. This has resulted in reduced demand for some of our products, particularly in our aesthetics products, such as the Apex 800, excess manufacturing capacity under current market conditions and higher manufacturing overhead costs, as a percentage of revenue. In addition, these economic conditions are making it very difficult for us, our customers and our distributors to forecast and 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 or further deteriorate, this may have a material adverse impact on our financial position, results of operations 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 Selling Price of our Products, Our Operating Results May Suffer. The average selling 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. For the nine months ended September 28, 2002 decreases in the average selling prices of our products impacted our level of sales by $0.4 million from the comparable nine month period in 2001. If we are unable to offset the anticipated decrease in our average selling prices by increasing our sales volumes, our net revenues will decline. To maintain our gross margins, we must continue to reduce the manufacturing cost of our products. Further, should average selling 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 the final product at our facility in Mountain View, California. Although our OcuLight,

OcuLight Symphony, DioLite 532 and Apex 800 systems have been introduced, we continue to face risks associated with manufacturing these products. Various difficulties may occur despite testing. 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. Some of our suppliers 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 suppliers, including unavailability of or delays in obtaining adequate supplies of components, including optics, laser diodes, and crystals and potentially reduced control of quality, production costs and timing of delivery. We may experience difficulty identifying alternative sources of supply for certain components used in our products. For example, we experienced delays in shipping our green laser systems, such as the DioLite 532 for aesthetics and the OcuLight GL and GLx for ophthalmology, during the first fiscal quarter of 2001 due to a supply shortage of a key component. We qualified additional sources for this component during the first fiscal quarter of 2001; however, the process of qualifying suppliers is ongoing and may be lengthy, particularly as new products are introduced. In addition, the use of alternate components may require design alterations which may delay installation and increase product costs. We have some long term or volume purchase agreements with our suppliers and currently purchase components on a purchase order basis. These components may not be available in the quantities required, on reasonable terms, or at all. Any failures by such third parties to adequately perform may impair our ability to offer our existing products, delay the submission of products for regulatory approval, impair our ability to deliver products on a timely basis or otherwise impair our competitive position. Establishing our own capabilities to manufacture these components would be expensive and could significantly decrease our profit margins. Our business, results of operations and financial condition would be adversely affected if we were 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 nine months ended September 28, 2002 and September 29, 2001, our international sales were $7.9 million and $8.1 million or 37% and 42%, respectively, of total sales. We anticipate that international sales will continue to account for a significant portion of our revenues in the foreseeable future. None of our international revenues and costs have been denominated in foreign currencies. As a result, an increase in the value of the U.S. dollar relative to foreign currencies makes our products more expensive and thus less competitive in foreign markets. For example, a high U.S. dollar relative value to the European currency (the Euro) would make our products less competitive in Europe when compared to European competitors and would negatively impact sales levels from the region. 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;

- 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 Third Party Coverage and Reimbursement Policies. 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. For example, during July 2000, the Center for Medicare and Medicaid Services, or CMS, advised that claims for reimbursement for certain AMD procedures which use our OcuLight SLx laser system would not be reimbursed by CMS. As a result, since July 2000, sales of the OcuLight SLx laser system dropped significantly. In September 2000, CMS changed its position and advised that claims for reimbursement for two of the AMD procedures can be submitted for reimbursement, with coverage and payment to be determined by the local medical carriers at their discretion. Sales of the OcuLight SLx continue, albeit at a lower level, because the OcuLight SLx can also be used for other ophthalmic procedures with CMS reimbursement. We believe domestic sales of the OcuLight SLx laser system will continue at these lower levels until more local Medicare 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. Two 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, as well as Cigna, which is the carrier for North Carolina, Tennessee and Idaho, have made coverage decisions approving the use of the Transpupillary Thermotherapy, or TTT, protocol for the treatment of wet AMD. We believe that more medical carriers will reimburse for these procedures when they are further validated by clinical studies. We are supporting a randomized clinical trial which may further validate the position TTT will have in the overall treatment regimen of AMD.

Changes in government legislation or regulation or in private third-party payers' policies toward reimbursement for procedures employing our products may prohibit adequate reimbursement. Denial of coverage and reimbursement for our products could have a material adverse effect on our business, results of operations and financial condition. 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.

Our Operating Results 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 aesthetics 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 aesthetic 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. As a result of the above factors, sales for any future quarter are not predictable with any significant degree of accuracy and operating results in any period should not be considered indicative of the results to be expected for any future period.

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 May 1996, we executed an agreement with Miravant Medical Technologies, a maker of photodynamic drugs, to collaborate on a device that emits a laser beam to activate a photodynamic drug developed by Miravant for the treatment of wet AMD. The Phase III clinical trial was fully enrolled in December 1999. In January 2002, Miravant announced that the top line results of the trial indicated that SnET2, the photodynamic drug developed, did not meet the primary efficacy endpoint in the study population. As a result, the future place for SnET2 in the treatment of wet AMD is unclear, although we do not expect to commercialize a product for use with SnET2 in the forseeable future. In the fourth quarter of 2001, we charged to expense $0.3 million of inventory related to the laser used by Miravant in the Phase III clinical trials. In October 2002, we announced our collaboration with Bausch & Lomb to design and manufacture a solid-state green wavelength (532nm) laser photocoagulator module, to be 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 Millenium EndoLase module are dependent upon the actual order rate from and shipment rate to Bausch & Lomb. In addition, Bausch & Lomb awaits FDA 510(k) premarket clearance in the United States and CE marking in Europe before marketing the Millenium EndoLase. Additionally, 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. 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. 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 six foreign pending patent applications that have been filed. Our patent applications may not issue as patents, any patents now or in the future may not offer any degree of protection, or our patents or patent applications may be challenged, invalidated or circumvented in the future. 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. Because patent applications are maintained in secrecy in the United States

until patents are issued and are maintained in secrecy for a period of time outside the United States, we have not conducted any searches to determine whether our technology infringes any patents or patent applications. 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. This may adversely impact our operating results.

Any claims, with or without merit, could 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. Although patent and intellectual property disputes in the medical device area have often been settled through licensing or similar arrangements, costs associated with such arrangements may be substantial and could include ongoing royalties. An adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses 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. Conversely, litigation may be necessary to enforce patents issued to us, to protect trade secrets or know-how owned by us or to determine the enforceability, scope and validity of the proprietary rights of others. Both the defense and prosecution of intellectual property suits or interference proceedings are costly and time consuming.

We Are Subject To Government Regulation. The medical devices that we market and manufacture are subject to extensive regulation by the FDA and by foreign and state governments. Under the FDA 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 manufacturer must obtain market clearance through either the 510(k) premarket notification process or the lengthier premarket approval, or PMA, application process. Obtaining these approvals can take a long time and delay the introduction of a product. Noncompliance with applicable requirements, including Quality System Regulations, or QSRs, can result in, among other things, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure of the government to grant premarket clearance or premarket approval for devices, 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. 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.

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 to the European Medical Device Directive and all applicable standards. While currently all of our released 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.

We Face Product Liability Risks 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. Such insurance is expensive and in the future may not be available on acceptable terms, if at all. A successful claim brought against us in excess of our insurance coverage could have a material adverse effect on our business, results of operations and financial condition.

If We Fail to Accurately Forecast Demand For Our Product and Component Requirements For the Manufacture of Our Product, We Could Incur Additional Costs or Experience Manufacturing Delays and May Experience Lost Sales or Significant Inventory Carrying Costs. We use quarterly and annual forecasts based primarily on our anticipated product orders to plan our manufacturing efforts and determine our requirements for components and materials. It is very important that we accurately predict both the demand for our product and the lead times required to obtain the necessary components and materials. Lead times for components vary significantly and depend on numerous factors, including the specific supplier, the size of the order, contract terms and current market demand for such components. If we overestimate the demand for our product, we may have excess inventory, which would increase our costs. If we underestimate demand for our product and, consequently, our component and materials requirements, we may have inadequate inventory, which could interrupt our manufacturing, delay delivery of our product to our customers and result in the loss of customer sales. Any of these occurrences would negatively impact our business and operating results.

If We Fail to Manage Growth Effectively, Our Business Could Be Disrupted Which Could Harm Our Operating Results. We have experienced, and may continue to experience growth in our business. We have made and, although we are currently in a global economic downturn, expect to continue to make significant investments to enable our future growth through, among other things, new product development and clinical trial results 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 is Volatile. 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 operating results;
- Changes in financial estimates by securities analysts;
- Announcements by us or our competitors of new products or of significant clinical achievements;
- Changes in market valuations of other similar companies; and
- Any deviations in our net sales or levels of profitability from levels expected by securities analysts.

In addition, the stock market has recently experienced extreme volatility 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 28, 2002.

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

QUALITATIVE DISCLOSURES

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

- The available-for-sale securities will fall in value if market interest rates increase.
- The impact of interest rate movements on our ability to obtain adequate financing to fund future operations.

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

Management evaluates our financial position on an ongoing basis.

Currency Rate Risk.

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

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"), our President and Chief Executive Officer, who is our principal executive officer, and our Chief Financial Officer and Vice President, Administration, who is our principal financial officer, performed an evaluation of the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-14(c) and 15(d)-14(c) of the Securities Exchange Act of 1934, as amended). Based on that evaluation, our President and Chief Executive Officer and our Chief Financial Officer and Vice President, Administration concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that material information about IRIDEX Corporation and our consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report was being prepared.

CHANGES IN INTERNAL CONTROLS

There have been no significant changes in our internal controls or in other factors that could significantly affect our disclosure controls and procedures subsequent to the Evaluation Date.

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 and sales tax matter consultations and for the review of the Company's filings under the Securities Exchange Act of 1934, as amended.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K
(a) Exhibits

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

(b) Reports on Form 8-K

None

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, 2002 By: /s/ Robert Kamenski

Robert Kamenski
Chief Financial Officer
(Principal Financial and
Principal Accounting Officer)

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

I, Theodore A. Boutacoff, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 12, 2002

By: /s/ THEODORE A. BOUTACOFF

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

I, Robert Kamenski, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 12, 2002

By: /s/ ROBERT KAMENSKI

Name: Robert Kamenski
Title: Chief Financial Officer and Vice President, Administration
(Principal Financial
and Accounting Officer)

EXHIBIT 99.1

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

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

By: /s/ Theodore A. Boutacoff

Name: Theodore A. Boutacoff
Title: Chief Executive Officer

I, Robert Kamenski, 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 28, 2002 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/A fairly presents in all material respects the financial condition and results of operations of IRIDEX Corporation.

By: /s/ Robert Kamenski

Name: Robert Kamenski
Title: Chief Financial Officer