



# Shareholders' LETTER

2001 was a very challenging year for IRIDEX. We were greatly affected by the general economic downturn beginning in Q1 of 2001

as well as the concerns over Medicare reimbursement for certain age-related macular degeneration (AMD) procedures. The economic slowdown had a greater effect on

sales of our aesthetic products, particularly the Apex 800 laser system for hair removal,

than on sales of our ophthalmology products. Aesthetic procedures are typically elective and therefore can be deferred, while therapeutic ophthalmic procedures typically cannot be deferred.

These combined factors contributed to our first loss year since 1992. We responded by concentrating our resources to focus on our core medical markets. This resulted in the decision to discontinue our efforts in the industrial laser segment. Also, we have been carefully managing expenses and preparing ourselves to respond with strength to customer requirements when the economy turns around.

There were some good developments in

2001 for IRIDEX:

- Noridian issued a written policy to provide Medicare reimbursement for Transpupillary Thermotherapy (TTT), a procedure that utilizes our OcuLight SLx laser system to treat a certain type of wet AMD. We estimate that up to 350,000 patients per year worldwide may

enrollment had been reached to statistically detect a clinically relevant difference in the outcomes of the study when additional follow-up is completed, and as a result enrollment was stopped. The 21 center 5 year randomized PTAMD study was designed to determine whether a low dose laser treatment for patients with dry AMD using the

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benefit from TTT. At the end of the year, CIGNA announced Medicare coverage for TTT procedures within their network. TTT is becoming more recognized as a viable treatment for wet AMD and we believe that TTT will have a very strong and significant position among the therapeutic alternatives available for this devastating condition.

- We introduced the Apex 800, the first high power, infrared (800 nm) diode laser hair removal system that has a light, ergonomic fiber optic handpiece. The Apex 800 allows us to compete in the \$180 million annual laser market to remove unwanted hair.
- The Data Safety Monitoring Committee for the PTAMD Clinical Trial determined that sufficient

OcuLight SLx laser system could preserve visual acuity and/or reduce the risk of progression to wet AMD. Of the estimated 5 million new cases of AMD per year, about 4.5 million are the dry form of the disease. We see the treatment of eyes with dry AMD as a significant potential opportunity for IRIDEX and we are optimistic about these developments.

Looking forward to 2002, we expect the

a laser treatment approach pioneered by IRIDEX, that utilizes our lasers to maximize preservation of sensitive tissues



# Advanced



Ophthalmologists depend on IRIS Medical OcuLight laser photocoagulator systems in offices, clinics and hospitals in 91 countries worldwide. IRIDEX enjoys a global leadership position in the semiconductor-based laser photocoagulator market, for both infrared (OcuLight SL/SLx) and visible (OcuLight GL/GLx) laser systems. Our reputation for providing reli-

able products is the foundation for our success in ophthalmology. In a recently conducted independent survey, product reliability was found to be the single most important decision-making factor in the purchase of a laser photocoagulator system.

to treat the wet form of age-related macular degeneration (AMD). In the United States, the TTT4CNV Clinical Study is underway to confirm this treatment, and similar studies are being conducted in Germany and Japan.

MIP protocols, which were pioneered by IRIDEX, are being performed using IRIS

Medical OcuLight SLx solid-state infrared lasers. We believe that maintaining leadership in MIP laser treatment protocols will permit us to make a substantial contribution in the treatment of serious eye diseases such as AMD, diabetic retinopathy and glaucoma. This validation will enable us to expand the market for our products, as MIP protocols will permit earlier treatment of these diseases.

largest share of the ophthalmic laser photocoagulator market. IRIDEX continues to take market share within this segment as older technology is replaced with state-of-the-art OcuLight laser systems.

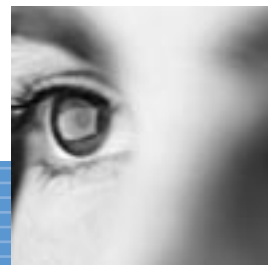
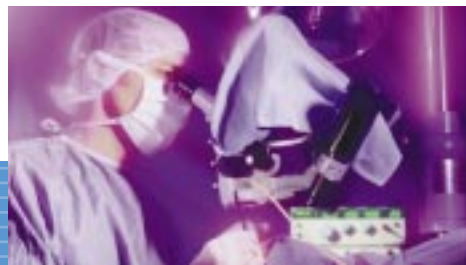
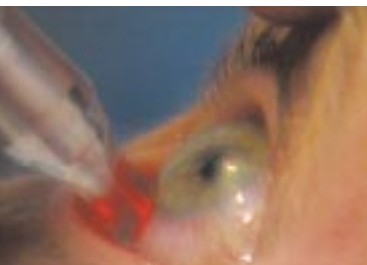
**"We believe that maintaining leadership in MIP laser treatment protocols will allow us to make a substantial contribution in the treatment of serious eye diseases."**

Clinical validation is another key factor in the continually expanding market acceptance of IRIS Medical OcuLight laser systems.

This is evident in the increased interest in Minimum Intensity Photocoagulation (MIP) protocol developing throughout the world. One such protocol, transpupillary thermotherapy (TTT) is being used

While we believe in the future of MIP protocols, we also understand the importance of maintaining our leadership position within the visible wavelength market segment. Visible wavelength laser systems currently occupy the

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# Advanced AESTHETICS

Over the past 5 years, IRIDEX has established a leadership position in the aesthetic laser market by providing a family of lasers recognized for performance, ease of use, reliability and portability. The DioLite 532 for vascular and pigmented lesions, and the Apex 800 for the removal of unwanted hair are used by dermatologists, plastic surgeons and other specialists interested in increasing their revenue base and expanding their practices.

The products harness the principles of selective photothermolysis and MIP to deliver the right balance of wavelength, spot size, energy density and pulse duration to maximize efficacy and safety.

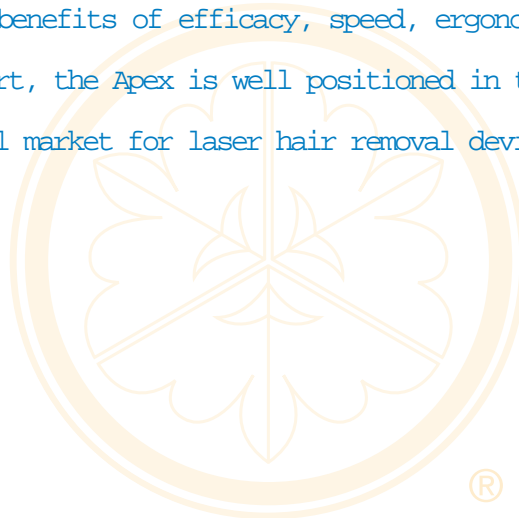
The DioLite 532 is used to treat vascular and pigmented skin lesions including spider veins, freckles and age spots. Part of the appeal of the DioLite 532 is its ability to treat a vast patient population quickly, gently and with minimal follow-up. The DioLite 532 uses pulses of laser light to gently heat the vessels, coagulating and collapsing them without disrupting them for a bruise-free appearance. Treatment is comfortable. Patients are typically treated without anesthesia. After a

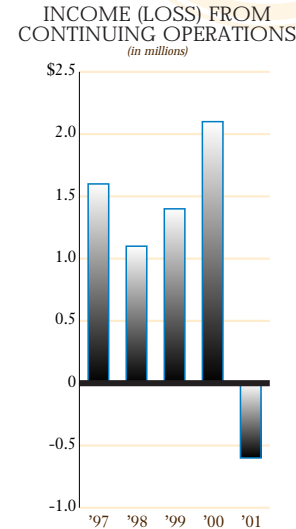
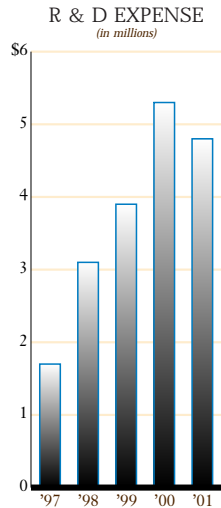
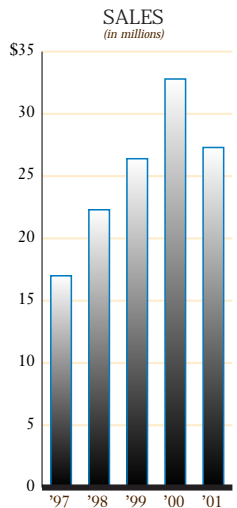
procedure, the treated area may experience slight swelling or redness that typically lasts only a few hours. Most patients can return immediately to work and social obligations.



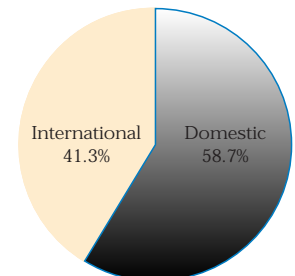
Photos courtesy of Mary Christian, MD

"With benefits of efficacy, speed, ergonomics and patient comfort, the Apex is well positioned in the \$180 million annual market for laser hair removal devices."





2001 Sales



	1997	1998	1999	2000	2001
<i>(Dollar and share amounts in thousands except per share data)</i>					
<b>FOR THE FISCAL YEAR</b>					
Sales	\$16,995	22,338	26,391	32,838	27,275
Operating income (loss)	\$ 1,884	966	1,573	2,320	(1,989)
Income (loss) from continuing operations	\$ 1,594	1,108	1,447	2,080	(601)
Diluted net income (loss) from continuing operations per common share	\$ 0.24	0.16	0.21	0.29	(0.09)
Shares used in per share calculations	6,755	6,765	6,849	7,285	6,757
<b>END OF FISCAL YEAR</b>					
Working capital	\$21,716	23,450	23,842	27,005	26,374
Total assets	\$26,686	28,377	32,763	35,025	33,788
Total shareholders' equity	\$23,880	25,885	27,504	30,500	29,833