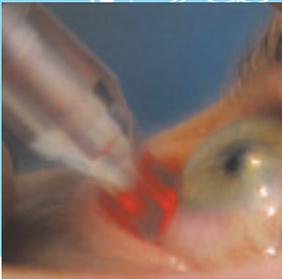


**IRIDEX**

Annual Report 2002

IRIDEX Corporation is a worldwide leader in developing, manufacturing, marketing and selling innovative and cost-effective medical laser systems for ophthalmology and aesthetics. The Company has the largest global installed base of solid-state lasers and focuses on developing laser products that are clinically effective, reliable, portable, versatile, and affordable.

IRIDEX was founded in 1989 as IRIS Medical Instruments, Inc. and went public as IRIDEX Corporation (NASDAQ/NMS: IRIX) in 1996. IRIDEX products are sold in the U.S. through a direct sales force and internationally through a network of 66 independent distributors into 107 countries.



**D**espite the continuing challenging global economic environment, IRIDEX experienced favorable business improvements in 2002 and a return to profitability for the year. This positive outcome during a very difficult year is a result of several proactive efforts taken by IRIDEX:

They include: (1) careful management of expenses and assets by scrutinizing all expenses and by reducing inventory and accounts receivable levels; (2) systematically improving gross margins by obtaining a premium for our products and by operating more efficiently; and (3) primarily operating our business to achieve earnings growth in preference to revenue growth. We obtain a premium for our products by satisfying our customers with the highest value proposition of products and services, by providing



- **New Product Introduction**—In October, we introduced the OcuLight Symphony Laser Delivery System, the first system to combine the clinical versatility and convenience of 532 nm, 810 nm and large spot 810 nm into one laser delivery device indicated for retinal photocoagulation and glaucoma procedures.
- **New Collaboration**—In the fourth quarter, we introduced the Millennium Endolase module in collaboration with Bausch & Lomb, which is integrated into the Bausch & Lomb Millennium Microsurgical System used in the operating room.
- **Formation of Global Customer Care Group (GCCG)**—Early in the year, we introduced GCCG to provide a higher value proposition for our customers. Satisfied customers equate to ongoing business and referrals to peers leading to increased market share and market leadership. Due to the importance of customer relationships, we chose to highlight our commitment to service in the pages that follow.
- **Downsizing for efficiency**—In order to better align our operations with the current economic environment and improve efficiency, we made the difficult decision to complete the first reduction in workforce in our history. As a result, our number of employees was reduced by 12% to more closely match our actual sales.

Looking forward, our strategies can be divided into shorter term and longer term strategies. Our shorter term strategies react to the current economic conditions and are operationally focused.

the best customer service in the industry, by providing complete system solutions for our customers, and by introducing a mix of new products and applications that provide us with meaningful incremental earnings growth.

Our longer term strategies are designed to drive market growth in segments of the market where we have strength. An example is continued development of Minimum Intensity Photocoagulation (MIP) protocols. MIP is a laser treatment approach pioneered by IRIDEX that uses our OcuLight SLx infrared laser to maximize preservation of sensitive retinal tissues while stimulating a therapeutic effect. We believe maintaining leadership in MIP will allow us to make a substantial contribution towards the treatment of serious eye diseases such as age-related macular degeneration and diabetic retinopathy.

We feel a combination of these strategies will enable us to expand the market opportunity for our products and to provide a better long-term value for our customers, their patients and our investors.

Thank you for your continued trust and support.

Sincerely,

Theodore A. Boutacoff  
President & CEO

## | Global Customer Care

IRIDEX has over 6,000 laser systems located in over 107 countries around the world. One way we differentiate our products from our competitors is by providing excellent customer care globally—an attribute valued by our customers.



engineers to improve existing products and be aware of customer issues in the design of new products. We believe that excellent customer care can only be attained if every interaction with a company results in a satisfying experience for the customer.

Excellent customer care is rarely confined to one individual or group. It must be part of the fabric of the entire organization. It must be part of the company culture. Customers today are much more discriminating and much more involved in the process of purchasing and maintaining a product, so their interaction with a company typically involves a number of individuals in a number of departments. Before purchasing a product, a customer may search for information on the company website and contact its sales and marketing personnel. After completing the purchase there may be interaction with customer service and technical service. Excellent customer care also results in improvements in product quality. Customer feedback is more readily transferred in an open communication environment, making all necessary departments aware of customer issues. This allows design

IRIDEX continuously strives to provide unparalleled customer focus throughout our entire organization. Our commitment to excellent customer care has helped IRIDEX capture and maintain market leadership. Satisfied customers continue to purchase equipment through us, refer peers to us for laser equipment, and become valuable references who strengthen our market position.

In 2002, we formed the Global Customer Care Group (GCCG) to focus on continual improvement in the services provided to IRIDEX customers. The GCCG is comprised of all internal departments that interact with our customers: Customer Service, Technical Service and Shipping and Receiving. By combining these departments into one customer-focused group, our goals of continuing improvements in quality, service and customer response are easier to attain.

We would like to commend you as a truly outstanding company. We have been extremely pleased with our laser in the management of our patients. Moreover, we have been especially pleased with the outstanding service and follow-up that your company provides.

—Keith McKenzie, MD  
Santa Cruz, CA

I can say that we have been extremely pleased with the product, service and all of the people we have contact with at IRIDEX. IRIDEX has set a standard of customer care and service that other companies will have a hard time matching.

—Thomas Wassel  
Winter Haven, FL

Of course, the desire to provide excellent customer care starts with IRIDEX employees. Our employees are oriented to our philosophy that the customer comes first at all times. When a customer calls, a polite, knowledgeable company representative is there to assist the customer and satisfy their needs.

GCCG department managers are in constant communication with each other concerning day-to-day activities relating to individual customers' requirements to make certain that the customers' expectations of IRIDEX products, service and support are met or exceeded. Through this constant communication and feedback, any problems or issues can be quickly identified and resolved before impacting the customer.



day. IRIDEX also has 24-hour, 7-day a week technical service coverage, so a service engineer is always available to assist new customers. Both of these commitments to satisfying the customer were implemented in the year we were founded, 1989, and set us apart from other companies. Even today, many competitors cannot match this commitment to excellent customer care.

Moving forward in 2003 and beyond, the GCCG will continue to develop and implement ideas on how to better serve IRIDEX customers, and build upon the customer loyalty already established. Web-based order processing and in-house customer training programs are being developed based upon feedback from our customers about their needs. By always striving to improve our

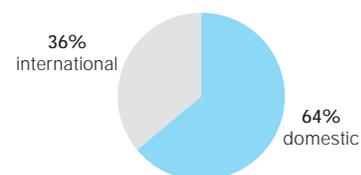


Our Technical Service department pioneered new concepts in customer care, early in our history, by providing loaner products while the customer's unit is being repaired, and we continue to offer that service today. Our investment in loaner equipment ensures the downtime experienced by the customer is minimized, and that they are typically up and running by the next business

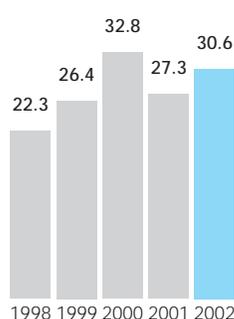
performance and service to the customer, we will never become complacent and lose the focus that helped IRIDEX achieve market leadership.

# | Financial Highlights

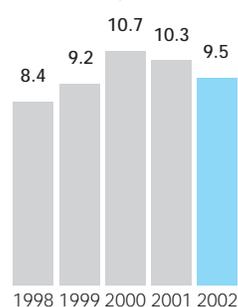
2002 sales | in percent



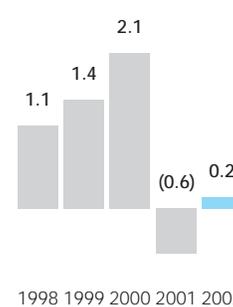
sales | \$ in millions



sales, general and administrative expenses | \$ in millions



income (loss) from continuing operations | \$ in millions



	1998	1999	2000	2001	2002
<i>(Dollar and share amounts in thousands except per share data)</i>					
<b>FOR THE FISCAL YEAR</b>					
Sales	\$22,338	\$26,391	\$32,838	\$27,275	\$30,634
Operating income (loss)	\$ 966	\$ 1,573	\$ 2,320	\$ (1,989)	\$ (181)
Income (loss) from continuing operations	\$ 1,108	\$ 1,447	\$ 2,080	\$ (601)	\$ 150
Diluted net income (loss) from continuing operations per common share	\$ 0.16	\$ 0.21	\$ 0.29	\$ (0.09)	\$ 0.02
Shares used in per share computations	6,765	6,849	7,285	6,757	6,928
<b>END OF FISCAL YEAR</b>					
Working capital	\$23,450	\$23,842	\$27,005	\$26,374	\$26,981
Total assets	\$28,377	\$32,763	\$35,025	\$33,788	\$34,272
Total shareholders' equity	\$25,885	\$27,504	\$30,500	\$29,833	\$30,198

## Board of Directors

John M. Nehra  
Chairman of the Board  
Managing General Partner  
Catalyst Ventures  
Special Partner  
New Enterprise Associates

Theodore A. Boutacoff  
President and Chief Executive Officer  
IRIDEX Corporation

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

James L. Donovan  
Vice President,  
Corporate Business Development  
IRIDEX Corporation

Donald L. Hammond, D.Sc.  
Former Director  
Hewlett-Packard Laboratories

Joshua Makower, M.D.  
Chairman of the Board and  
Chief Technical Officer  
TransVascular, Inc.

## Executive Officers

Theodore A. Boutacoff  
President and Chief Executive Officer

Eduardo Arias  
Senior Vice President, International Sales  
and Business Development

James L. Donovan  
Vice President,  
Corporate Business Development

Robert Kamenski  
Vice President, Administration and  
Chief Financial Officer

Timothy Powers  
Vice President, Operations

## Annual Meeting

IRIDEX Corporation's 2003 annual meeting of stockholders will be held on Wednesday, June 4, 2003 at 2:00 p.m. Pacific Time at 1212 Terra Bella Avenue, Mountain View, California 94043.

## Corporate Headquarters

IRIDEX Corporation  
1212 Terra Bella Avenue  
Mountain View, California 94043  
Telephone: 650-940-4700  
Facsimile: 650-940-4710

## Corporate Counsel

Wilson Sonsini Goodrich & Rosati, P.C.  
650 Page Mill Road  
Palo Alto, California 94304-1050

## Independent Accountants

PricewaterhouseCoopers LLP  
Ten Almaden Boulevard, Suite 1600  
San Jose, California 95113

## Transfer Agent and Registrar

EquiServe  
P.O. Box 43023  
Providence, Rhode Island 02940-3023  
Investor Relations Telephone: 816-843-4299  
Internet Address: [www.equiserve.com](http://www.equiserve.com)

## Investor Relations

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

Please direct inquiries to:

Investor Relations  
IRIDEX Corporation  
1212 Terra Bella Avenue  
Mountain View, California 94043  
Telephone: 650-940-4700