

**Executive Officers**

Barry G. Caldwell  
President and Chief Executive Officer

Eduardo Arias  
Senior Vice President, International  
Sales and Business Development

James L. Donovan  
Vice President  
Corporate Business Development

Timothy S. Powers  
Vice President, Operations

Larry Tannenbaum  
Sr. Vice President and Chief  
Financial Officer

Donald J. Todd  
Vice President, Marketing

**Board of Directors**

Theodore A. Boutacoff  
Chairman of the Board  
Co-Founder, Former President  
and Chief Executive Officer  
IRIDEX Corporation

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

Barry G. Caldwell  
President and Chief Executive Officer  
IRIDEX Corporation

James L. Donovan  
Vice President  
Corporate Business Development  
IRIDEX Corporation

Sanford Fitch  
Director, Ozone International  
Director, FoxHollow Technologies, Inc.

Garrett A. Garrettson, Ph.D.  
CEO  
Fresco Technologies, Inc.  
Managing Partner  
daVinci Consulting LLC

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

**Annual Meeting**

IRIDEX Corporation's 2006 annual meeting of stockholders will be held on Thursday, June 8, 2006 at 10:00 a.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 Registered  
Public Accountants**

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

**Transfer Agent and Registrar**

Computershare Trust  
Company, N.A.  
P.O. Box 43023  
Providence, RI 02940-3023  
Stockholder Inquiries: 781-575-2879  
Internet Address:  
www.computershare.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).

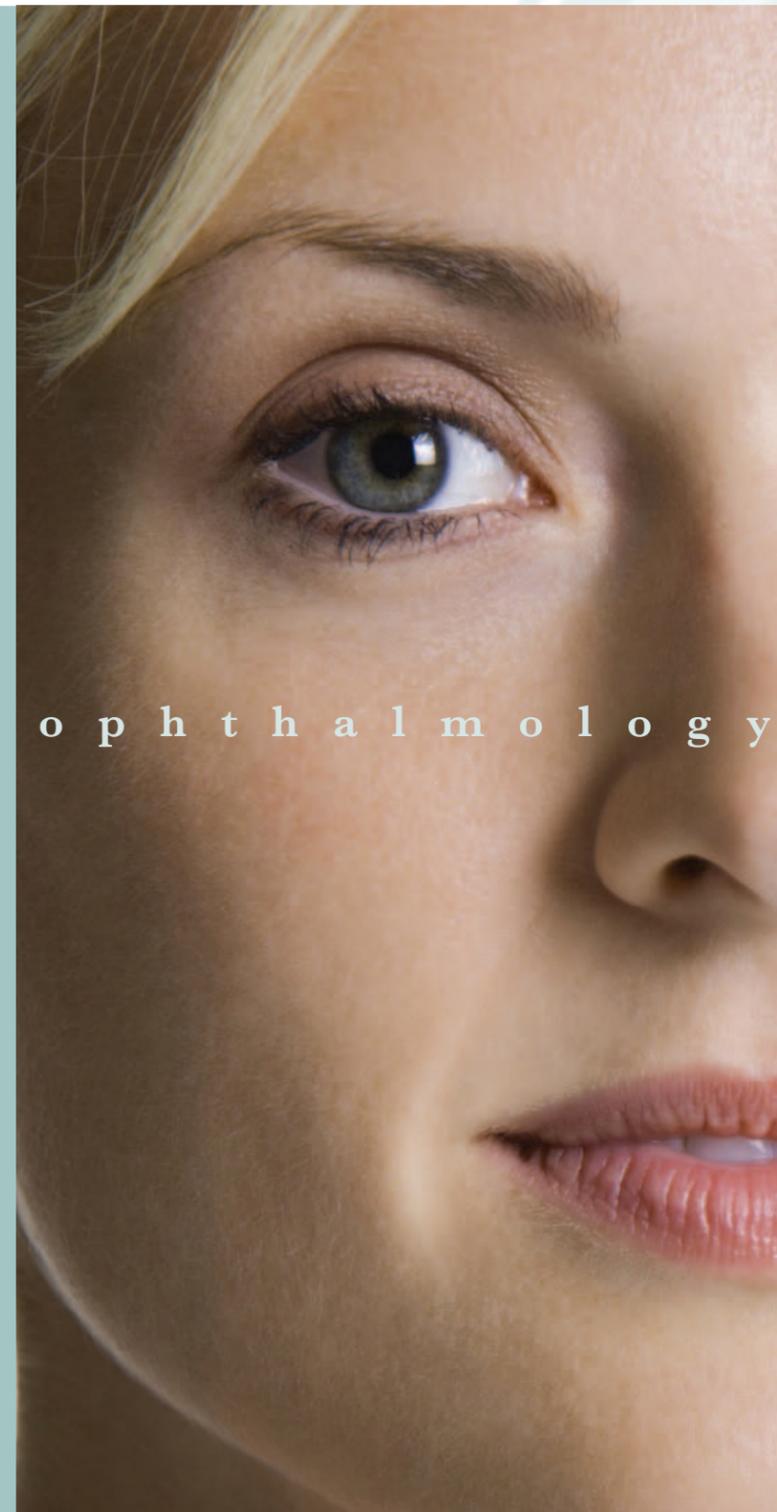
**Please direct inquiries to:**

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



**Executive Management Team**

Barry G. Caldwell— *President and CEO*, Deborah Tomasco— *VP, Product Innovation*, Timothy S. Powers— *VP Operations*, Donald J. Todd— *VP, Marketing*, Kenneth R. Bice— *VP, Sales USA*, Eduardo Arias— *Sr. VP, International Sales and Business Development*, David M. Buzawa— *VP, Research*, Larry Tannenbaum— *Sr. VP and CFO*



ophthalmology dermatology

Leading the industry  
in laser therapies  
that treat **eye** diseases  
and conditions  
of the **skin**



IRIDEX Corporation, 1212 Terra Bella Avenue, Mountain View, California  
Phone: 650.940.4700 Fax: 650.940.4710 Web: [www.irdex.com](http://www.irdex.com)

# l e t t e r t o o u r i n v e s t o r s



To Our Investors,

It is with great enthusiasm that we report to you our progress during 2005, which in several ways was a record year for IRIDEX. We have created the vision for our future growth and began to see encouraging results during 2005:

- **Revenue** grew by 13% to a record level of \$37 million.
- **Ophthalmology** revenues increased by 11% and dermatology by 26%.
- **Domestic** sales grew by 14% while international sales grew by 11%.
- **Gross margins** increased by nearly four percentage points. This was based primarily on the impact of our increased sales of disposable products and cost reduction programs.
- **Balance sheet** metrics improved, including reduced inventory levels with better inventory turns and additional reductions in our days sales outstanding.
- **Cash flow** generated \$3.4 million.
- In 2005 we earned \$1.7 million in net income or \$0.21 per share.

We exited the year with a record \$21.4 million in cash, which was the highest in our history and represented a 19% improvement over year-end 2004.

## ... 2005 product introductions

Within dermatology, we introduced two new products in 2005: the DioLite<sup>XP</sup> which is a 532 nm wavelength laser with enhanced power and the ScanLite<sup>XP</sup> which allows customers to treat a larger area more efficiently. In addition, we had a full year in sales of our VariLite<sup>TM</sup> 532/940 nm dual wavelength laser console. In ophthalmology, we expanded our console product line with the introduction of the OcuLight<sup>®</sup> OR laser for both ophthalmic and otological applications. We also introduced several new disposable EndoProbes<sup>®</sup> during the year including a new series of Stepped EndoProbes.

## ... investing in our team

A strong IRIDEX marketing drive is an important stimulus to our future growth strategy. A very experienced marketing executive joined the team as our Vice President of Marketing and we have added new market managers for the ophthalmology and dermatology segments. We have also reorganized our product innovation team under the leadership of our new Vice President of Product Innovation who brings many years of experience in rapid product development processes and developing and managing high performance teams. Our seventeen engineers have an average of 22 years experience in medical devices and we believe that we can significantly improve our delivery of new products focused on the unmet needs of our customers. In addition, we have expanded our domestic ophthalmic sales team in order to increase our share of disposable revenues.

## ... well positioned for growth

Our stated goal is to reach \$100 million in annual revenues before 2010. There are three legs to our growth strategy:

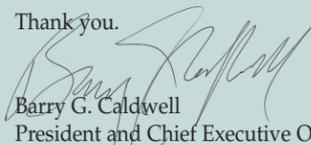
- **Earn double digit percentage growth in our core business.** This will be accomplished with new sales and marketing focus on increasing our market share in console sales and disposables. Our recurring revenues (disposables and service) represented 36% of our total sales in 2005, which was an increase over the 33% in 2004. Our goal is to reach over 40% in recurring revenues in the next few years on an increasing revenue base.
- **Customer focused new product introductions.** With our restructured Product Innovation Group (PIG) combined into one united group under new leadership, we believe that our percentage of revenues derived from new product introductions will significantly increase.
- **New focus on external growth.** A new team has been established to focus on additional OEM opportunities with our technology and strategic acquisitions which can enhance our overall growth rate.

## ... transition year

This has been an exciting year for me to join the IRIDEX team and to build my understanding of the opportunities to grow our business. At midyear, Ted Boutacoff stepped down after having served 17 years as our CEO. Ted and the other co-founders are to be credited for creating the strong foundation from which we have to grow. Ted became the Chairman of the Board as Don Hammond who has served on the Board for 16 years stepped down from the Chairman's role, but remained on the Board. The Company very much appreciates the past contributions and future participation of both Ted and Don, as well as the other members of our Board.

We will not lose sight of our shareholders who have been key to our success in the past and will continue to be so in the future. While pleased with our progress in 2005, we look forward with great confidence to what our new team can achieve in the coming years. Our success comes from our people, who have embraced change and will diligently work to exceed our growth expectations.

Thank you.

  
Barry G. Caldwell  
President and Chief Executive Officer

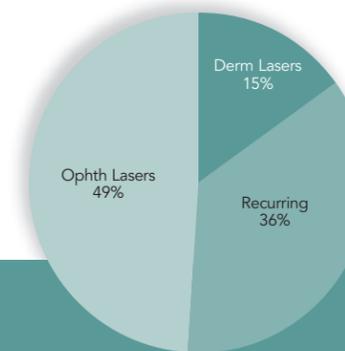
# f i n a n c i a l h i g h l i g h t s

(Dollar and share amounts in thousands except per share data)

	2005	2004	2003	2002	2001	'05 v '04	'04 v '03
Sales to Customers	\$37,029	\$32,810	\$31,699	\$30,634	\$27,275	13%	4%
Net Income (loss)	\$1,671	\$(402)	\$371	\$150	\$(601)	516%	-208%
Earnings per share	\$0.21	\$(0.06)	\$0.05	\$0.02	\$(0.19)	450%	-220%
Cash* (cash, cash equivalents and available-for-sale securities)	\$21,434	\$18,028	\$16,292	\$11,542	\$9,102	19%	11%
Total Assets	\$41,104	\$39,053	\$35,839	\$34,272	\$33,788	5%	16%
Working Capital	\$32,330	\$25,342	\$28,462	\$28,072	\$26,374	28%	11%
Cash* per Share	\$2.72	\$2.50	\$2.30	\$1.67	\$1.35	9%	9%
Market Price (year-end close)	\$7.86	\$4.24	\$5.40	\$2.84	\$4.21	85%	-21%

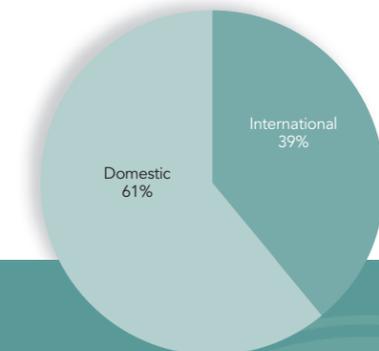
## 2 0 0 5 r e v e n u e s

product revenues



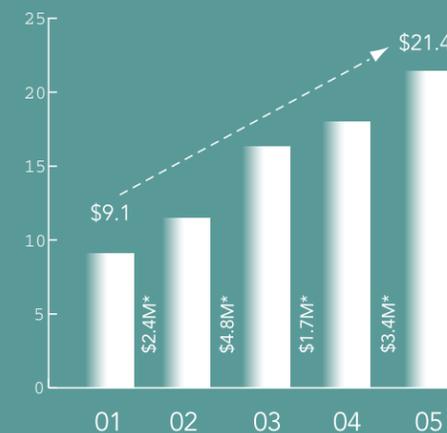
Growth Rate 2005 over 2004  
 Derm Lasers 26%  
 Recurring 21%  
 Opth Lasers 4%

geographic revenues



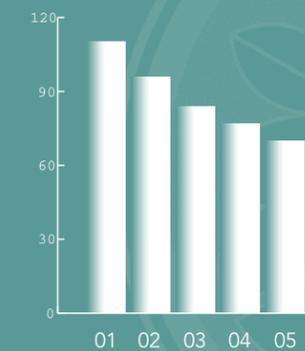
Growth Rate 2005 over 2004  
 Domestic 14%  
 International 11%

growing cash



\*cash generated

improving AR days outstanding



improving inventory turns

