

The Value
of Experience



OUR MISSION

Our mission at IRIDEX is to be the market leader in less invasive and Minimum Intensity Photocoagulation (MIP) therapies that improve patient outcomes for diseases of the eye and conditions of the skin while providing:

- Superior value for our customers
- A rewarding work environment for our employees, and
- An opportunity for equitable returns for our shareholders



IRIDEX

TO OUR SHAREHOLDERS During the past year, the IRIDEX management team executed a major program to improve our operating efficiencies and asset management. Our efforts generated substantial results including improved operating ratios, inventory controls and a 147% increase in net income to shareholders. With these initiatives in place, we enter 2004 poised to improve our profitability and capitalize on potential market opportunities.

Financial Snapshot of 2003:

- Sales for 2003 were \$31.7 million, an increase of 3% from 2002.
- Ophthalmology products contributed 83% of these sales while Dermatology products contributed 17%.
- Geographically, 37% of sales were generated from shipments of our products internationally.
- Net income for 2003 was profitable at \$371,000 or \$0.05 per share, an increase of 147% over 2002.
- Asset management programs during 2003 increased cash by \$4.8 million up to \$16.3 million primarily due to reductions in inventory of \$2.0 million and in accounts receivable of \$1.5 million.



During the past 14 years, IRIDEX has invested in the development of laser devices and applications to treat the three leading causes of blindness (age-related macular degeneration, glaucoma and diabetic retinopathy) and to improve the outcomes of traditional laser photocoagulation. As a result of these efforts, IRIDEX now has the largest worldwide installed base of solid-state laser photocoagulators. We have become a leading influence for doctors who annually treat more than 3 million patients worldwide with conventional laser photocoagulation therapies each year.

Looking forward, we believe that our pioneering role in **Minimum Intensity Photocoagulation (MIP)** will provide our greatest opportunity for future growth. MIP protocols offer a gentler treatment alternative to conventional laser photocoagulation by delivering a milder form of retinal photocoagulation that spares the sensory retina and maximizes vision preservation. MIP protocols may reduce the side-effects of traditional treatments allowing treatment earlier in the disease process when more patients can benefit.

During 2003, the clinical evidence showing favorable results of MIP approaches to age-related macular degeneration (AMD) and other sight threatening diseases (such as diabetic retinopathy) continued to grow. As a result of this body of evidence, we have seen MIP protocols such as Transpupillary Thermotherapy (TTT) and Feeder Vessel Therapy (FVT) for wet AMD gain more acceptance worldwide and the number of states where Medicare reimburses physicians for these procedures is increasing.

IRIDEX has been supporting the TTT4CNV Clinical Trial which is a multi-center, prospective, double-masked, placebo-controlled, randomized trial conducted at 22 centers in the United States. Results from this trial should be available for release during 2004 or 2004.

Until the results of these studies are released, our shorter term strategies are more reactive to the current healthcare and economic conditions and are financially driven. They include:

- (1) Focusing on **earnings growth** with some growth in revenues. This is a change from our 2003 strategy, which was to "Primarily operate for earnings growth rather than revenue growth". We feel that we have gotten our operations in sufficient order to begin to concentrate on growth again;
- (2) Systematically **improve gross margins** by obtaining a premium for our products and by operating more efficiently;
- (3) **Continue managing expenses and assets** by scrutinizing all expenses and by reducing inventory; and
- (4) **Investigate acquisitions** which complement our product offerings, have some consumable or disposable component, fit within our high quality standards and are accretive to shareholder returns.

We look forward to reporting on our progress, which would not be possible without the confidence of our customers, the dedication of our employees and the commitment of our shareholders.

Sincerely,

A handwritten signature in blue ink, appearing to read "Theodore A. Boutacoff". The signature is stylized and fluid.

Theodore A. Boutacoff

MARKET SHARE

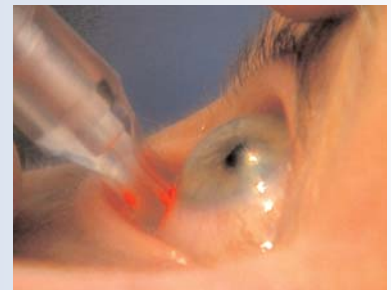
IRIDEX Corporation is the worldwide leader in developing, manufacturing, marketing, selling and servicing innovative and cost-effective medical laser systems for ophthalmology and dermatology. The Company has the largest global installed base of solid-state lasers and focuses on developing laser products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



IRIDEX's fundamental strategy for becoming a market leader and maintaining market leadership is based on a five-prong approach:

- Provide good value to our customers.
- Listen to customers and understand their needs.
- Provide good, dependable, and well-validated products.
- Support customers with excellent service.
- Develop new clinical applications in partnership with physicians.

Our customer-oriented philosophy and value-added support programs have helped us to capture and maintain market share. Satisfied customers continue to purchase equipment through us, refer peers to us for laser equipment, and become valuable references that strengthen our market position.



Ophthalmology

IRIDEX has the largest worldwide installed

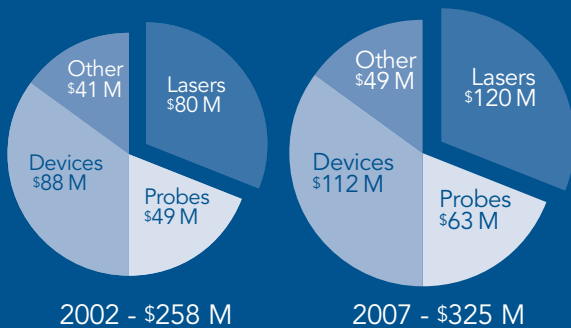
base of laser photocoagulators and continues to set the technological pace for semiconductor-based laser products that offer value to our customers. Our products are clinically effective for treating major eye diseases and offer a high value proposition with their reliability, versatility and low cost of ownership. In 2003, we concentrated on expanding our consumable probe line and introduced new EndoProbe products including 25 gauge, active aspirating and BriteLight Illuminating probes.

Dermatology

IRIDEX provides a family of lasers recognized for performance, ease of use, reliability, and portability. Our products are used to treat a variety of vascular and pigmented skin lesions as well as for hair removal.



WW LASER & ACCESSORIES RETINAL MARKET



Growth rate: 5% CAGR

Source: Market Scope 2002 Retina Report

- There are 20,000 laser photocoagulators worldwide (4,000 of which are IRIDEX lasers).
- Photocoagulator market grows 3-5% a year.
- IRIDEX has 38% U.S. market share of photocoagulators (Frost & Sullivan 2004).
- IRIDEX has 42% U.S. market share by procedures (Frost & Sullivan 2004).

MARKET OPPORTUNITY

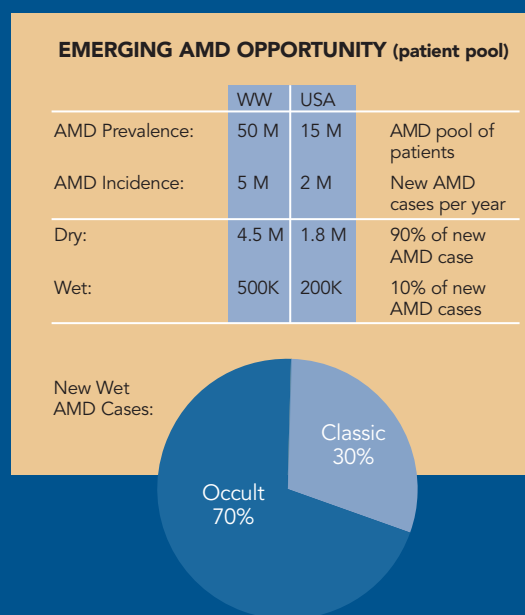
Over the years, IRIDEX has worked closely with physicians around the world to develop new laser products and applications. This partnership has allowed IRIDEX and physicians to identify and validate a number of procedures such as treatment of retinopathy of prematurity, retinoblastoma, and uncontrolled glaucoma that have become the standard-of-care.

Looking forward, IRIDEX continues to increase the market opportunity through our pioneering work in the area of Minimum Intensity Photocoagulation (MIP) protocols.

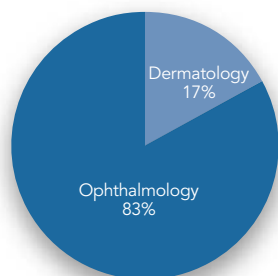
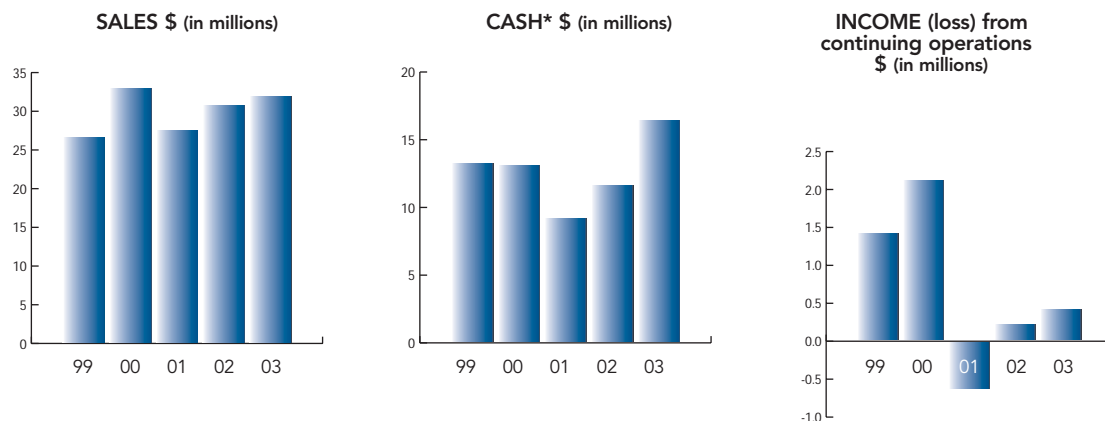
We believe that maintaining leadership in MIP laser treatment protocols will permit us to make a substantial contribution in the treatment of serious eye diseases. These gentler, less invasive protocols allow treatment earlier in the disease process and will become the standard-of-care through clinical trial validation. This validation will enable us to expand the market for our products and force the replacement of older technologies.

IRIDEX is supporting a number of studies to validate the MIP concept of using the minimum amount of laser energy to initiate a therapeutic effect while sparing healthy tissue. Since MIP protocols cause less or minimal damage, they may have a higher benefit-to-risk ratio than conventional treatments. As a result, patients can be treated earlier in the disease process allowing more to benefit from treatment and the maximum amount of sight to be preserved. Studies are currently focused on AMD and diabetic retinopathy.

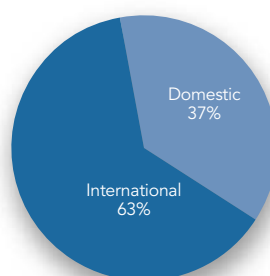
Transpupillary thermotherapy (TTT) for AMD is one MIP protocol that has shown encouraging results worldwide and represents an exciting trend toward less damaging laser photocoagulation. Over 80 studies have shown that TTT produces favorable therapeutic responses with minimal side effects and preservation of vision. The randomized TTT4CNV Clinical Trial sponsored by IRIDEX is currently underway in the U.S. for further validation. Results of these studies should be available within the next year.



FINANCIAL HIGHLIGHTS



2003 sales by market



2003 sales worldwide

	1999	2000	2001	2002	2003
<i>(Dollar and share amounts in thousands except per share data)</i>					
FOR THE FISCAL YEAR					
Sales	\$ 26,391	32,838	27,275	30,634	31,699
Operating income	\$ 1,573	2,320	(1,989)	(181)	(48)
Income (loss), from continuing operations	\$ 1,447	2,080	(601)	150	371
Diluted net income per common share	\$ 0.21	0.29	(0.09)	0.02	0.05
Shares used in per share computations	6,849	7,285	6,757	6,928	7,072
END OF FISCAL YEAR					
Cash, Cash Equivalents, and available for sales securities*	\$ 13,148	12,994	9,102	11,542	16,292
Working capital	\$ 23,842	27,005	26,374	28,072	28,462
Total assets	\$ 32,763	35,025	33,788	34,272	35,839
Total shareholders' equity	\$ 27,504	30,500	29,833	30,198	30,834

CORPORATE INFORMATION

Board of Directors

Donald L. Hammond, D.Sc.
Chairman of the Board
Former Director
Hewlett-Packard Laboratories

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

Stanford Fitch
Director, Ozone International
Former Director, Conceptus Inc.

Joshua Makower, M.D.
President and CEO
ExploraMed II, 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

Timothy S. Powers
Vice President, Operations

Larry Tannenbaum
Sr. Vice President and
Chief Financial Officer

Annual Meeting

IRIDEX Corporation's 2004 annual meeting of stockholders will be held on Wednesday, June 2, 2004 at 10:00 a.m. Pacific Time at 1212 Terra Bella Avenue, Mountain View, California 94043.

Corporate Headquarters

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Facsimile: 650-940-4710

Corporate Counsel

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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 Trust Company, N.A.
P.O. Box 219045
Kansas City, MO 64121-9045
Stockholder Inquiries: 816-843-4299
Internet Address: 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.iredex.com.

Please direct inquiries to:

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