

Edgar Filing: IRIDEX CORP - Form 10-K/A

IRIDEX CORP  
Form 10-K/A  
April 10, 2002

=====

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

FORM 10-K/A  
AMENDMENT NO. 1

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 29, 2001
- 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  
(STATE OR OTHER JURISDICTION  
OF INCORPORATION OR ORGANIZATION)

77-0210467  
(I.R.S. EMPLOYER  
IDENTIFICATION NUMBER)

1212 TERRA BELLA AVENUE, MOUNTAIN VIEW CA 94043-1824  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)  
(ZIP CODE)  
(650) 940-4700  
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

-----

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:  
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:  
COMMON STOCK, \$0.01 PAR VALUE

-----

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. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 20, 2002, was approximately \$14,703,055 based on the

## Edgar Filing: IRIDEX CORP - Form 10-K/A

closing price reported for such date on the NASDAQ National Market System. For purposes of this disclosure, shares of Common Stock held by each executive officer and director and by each holder of 5% or more of the outstanding shares of Common Stock have been excluded from this calculation, because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 20, 2002, Registrant had 6,862,862 shares of Common Stock outstanding.

-----  
DOCUMENTS INCORPORATED BY REFERENCE

Certain parts of the Proxy Statement for the Registrant's 2002 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K.

=====  
EXPLANATORY NOTE

This Annual Report on Form 10-K/A ("Form 10-K/A") is being filed as Amendment No. 1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 29, 2001. This Form 10-K/A is filed with the Securities and Exchange Commission (the "Commission") for the sole purpose of revising the Consolidated Statement of Cash Flows as a result of a transposition error.

### ITEM 8. FINANCIAL STATEMENTS

Our consolidated balance sheets as of December 29, 2001 and December 30, 2000 and the consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 29, 2001, together with the related notes and the report of PricewaterhouseCoopers LLP, independent accountants, are on the following pages.

### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of IRIDEX Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity, of cash flows, and of comprehensive income (loss) present fairly, in all material respects, the financial position of IRIDEX Corporation and its Subsidiaries (the "Company") at December 29, 2001 and December 30, 2000 and the results of their operations, their cash flows, and of comprehensive income (loss) for each of the three years in the period ended December 29, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index under 14(a)(2) on page 59 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing

## Edgar Filing: IRIDEX CORP - Form 10-K/A

standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
January 25, 2002

### IRIDEX CORPORATION

#### CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	December 29, 2001 -----	Dec 2 -----
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$ 4,613	\$
Available-for-sale securities .....	4,489	
Accounts receivable, net of allowance for doubtful accounts of \$318 in 2001 and \$481 in 2000 .....	8,066	
Inventories, net .....	12,562	
Prepays and other current assets .....	599	
	-----	-----
Total current assets .....	30,329	3
Property and equipment, net .....	1,535	
Deferred income taxes .....	1,924	
	-----	-----
Total assets .....	\$ 33,788	\$ 3
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable .....	\$ 1,176	\$
Accrued expenses .....	2,779	
	-----	-----
Total liabilities .....	3,955	---
	-----	-----
Commitments and contingencies (Note 5)		
Stockholders' Equity		
Convertible Preferred Stock, \$.01 par value:		
Authorized: 2,000,000 shares;		
Issued and outstanding: none .....		--

## Edgar Filing: IRIDEX CORP - Form 10-K/A

Common Stock, \$.01 par value:		
Authorized: 30,000,000 shares;		
Issued and outstanding: 6,815,672 shares in 2001 and		
6,700,862 shares in 2000 .....	69	
Additional paid-in capital .....	23,417	2
Accumulated other comprehensive income .....	3	
Treasury Stock		
Outstanding: 103,000 shares in 2001 and 76,000 shares in 2000 ....	(430)	
Retained earnings .....	6,774	
	-----	-----
Total stockholders' equity .....	29,833	3
	-----	-----
Total liabilities and stockholders' equity .....	\$ 33,788	\$ 3
	=====	=====

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

### IRIDEX CORPORATION

#### CONSOLIDATED STATEMENTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 29, 2001	Y DE
	-----	-----
Sales .....	\$ 27,275	
Cost of sales .....	14,205	
	-----	
Gross profit .....	13,070	
	-----	
Operating expenses:		
Research and development .....	4,808	
Sales, general and administrative .....	10,251	
	-----	
Total operating expenses .....	15,059	
	-----	
Income (loss) from operations .....	(1,989)	
Interest income .....	378	
Other income, net .....	48	
	-----	
Income (loss) before income taxes .....	(1,563)	
Benefit from (provision for) income taxes .....	962	
	-----	
Income (loss) from continuing operations .....	(601)	
Income (loss) from operations of discontinued Laser		
Research segment (net of applicable income tax benefit (provision)		
of \$124, \$(131) and \$(80), respectively in 2001, 2000 and 1999) ...	(204)	
Income (loss) on disposal of Laser Research segment, including (net		
of applicable income tax benefit of \$315, \$0 and		
\$0, respectively in 2001, 2000 and 1999) .....	(468)	
	-----	
Net income (loss) .....	\$ (1,273)	
	=====	
Basic net income (loss) per share:		

Edgar Filing: IRIDEX CORP - Form 10-K/A

Continuing operations .....	\$ (0.09)
Discontinued operations .....	(0.10)
	-----
Basic net income (loss) per common share .....	\$ (0.19)
	=====
Diluted net income (loss) per share:	
Continuing operations .....	\$ (0.09)
Discontinued operations .....	(0.10)
	-----
Diluted net income (loss) per common share .....	\$ (0.19)
	=====
Shares used in net income (loss) per common share basic calculations .....	6,757
	=====
Shares used in net income (loss) per common share diluted calculations ....	6,757
	=====

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

IRIDEX CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(IN THOUSANDS, EXCEPT SHARE DATA)

	Common Stock		Additional	Treasury	Accumula
	Shares	Amount	Paid-in	Stock	Other
	-----	-----	-----	-----	Comprehen
			Capital		Income (L
	-----	-----	-----	-----	-----
Balances, January 2, 1999.....	6,506,010	\$65	\$21,800		\$ 7
Issuance of Common Stock under Stock					
Option Plan.....	51,544		107		
Issuance of Common Stock under Employee					
Stock Purchase Plan.....	58,804	1	217		
Purchase of Treasury Stock.....	(76,000)			(315)	
Change in unrealized gains on					
available-for-sale securities...					(9
Net income.....					
	-----	---	-----	-----	---
Balances, January 1, 2000.....	6,540,358	66	22,124	(315)	(2
Issuance of Common Stock under Stock					
Option Plan.....	120,173	1	317		
Issuance of Common Stock					
under Employee Stock					
Purchase Plan.....	40,331		242		
Stock compensation expense.....			8		
Change in unrealized gains on					
available-for-sale securities...					12
Net income.....					
	-----	---	-----	-----	---
Balances, December 30, 2000.....	6,700,862	67	22,691	(315)	10
Issuance of Common Stock					
under Stock Option Plan.....	74,942	1	99		
Issuance of Common Stock under					
Employee Stock Purchase Plan....	66,868	1	255		
Purchase of Treasury Stock.....	(27,000)			(115)	

Edgar Filing: IRIDEX CORP - Form 10-K/A

Tax Benefit of Employee Stock					
Option Plan.....			372		
Change in unrealized gains on					
available-for-sale securities...					(7)
Net loss.....					
Balances, December 29, 2001.....	6,815,672	\$69	\$23,417	\$ (430)	\$ 3
	=====	===	=====	=====	=====

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

IRIDEX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	YEAR ENDED DECEMBER 29, 2001 -----
Cash flows from operating activities:	
Net income (loss) .....	\$ (1,273)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization .....	859
Tax Benefit of Employee Stock Option Plan .....	372
Stock compensation expense .....	--
Provision for doubtful accounts .....	(163)
Provision for inventories .....	343
Deferred income taxes .....	(332)
Amortization of intangible asset .....	
Changes in assets and liabilities:	
Accounts receivable .....	107
Inventories .....	(3,184)
Prepays and other current assets .....	206
Accounts payable .....	(232)
Accrued expenses .....	(338)
Net cash provided by (used in) operating activities .....	(3,635)
Cash flows from investing activities:	
Purchases of available-for-sale securities .....	(4,489)
Proceeds from maturity of available-for-sale securities .....	2,989
Acquisition of property and equipment .....	(491)
Net cash provided by (used in) investing activities .....	(1,991)
Cash flows from financing activities:	
Purchase of Treasury Stock .....	(115)
Issuance of Common Stock under stock purchase and option plans .....	356
Net cash provided by financing activities .....	241

## Edgar Filing: IRIDEX CORP - Form 10-K/A

Net (decrease) increase in cash and cash equivalents .....	(5,385)
Cash and cash equivalents, beginning of year .....	9,998
	-----
Cash and cash equivalents, end of year .....	\$ 4,613
	=====

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Income taxes .....	\$ 12
--------------------	-------

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Change in unrealized gains (losses) on available-for-sale securities .....	\$ (7)
--	--------

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

IRIDEX CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(IN THOUSANDS)

	YEAR ENDED DECEMBER 29, 2001	YEAR ENDED DECEMBER 30, 2000	YEAR ENDED JANUARY 1, 2000
	-----	-----	-----
Net income (loss) .....	\$ (1,273)	\$2,416	\$ 1,618
Other comprehensive income:			
Changes in unrealized gains (losses) on available-for-sale securities .....	(7)	12	(9)
	-----	-----	-----
Comprehensive income (loss) .....	\$ (1,280)	\$2,428	\$ 1,609
	=====	=====	=====

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

IRIDEX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS OF THE COMPANY

Description of Business

IRIDEX Corporation is a leading worldwide provider of semiconductor-based laser systems used to treat eye diseases in ophthalmology and skin afflictions in dermatology.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The consolidated financial statements include our accounts and our wholly-owned subsidiaries. All significant intercompany accounts and

## Edgar Filing: IRIDEX CORP - Form 10-K/A

transactions have been eliminated.

### Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Company invests primarily in money market funds and government paper; accordingly, these investments are subject to minimal risks.

### Available-for-Sale Securities

All marketable securities as of December 29, 2001 and December 30, 2000 are considered to be available-for-sale and therefore are carried at fair value. Available-for-sale securities are classified as current assets when they have scheduled maturities of less than one year. Available-for-sale securities are classified as non current assets when they have scheduled maturities of more than one year. Unrealized holding gains and losses on such securities are reported net of related taxes as a separate component of stockholders' equity until realized. Realized gains and losses on sales of all such securities are reported in interest and other income and are computed using the specific identification cost method.

### 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.

### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which is generally three years. Amortization of leasehold improvements and property and equipment is computed using the straight-line method over the estimated useful life of the related assets, typically three years.

### 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. Up-front fees received in connection with product sales are deferred and recognized over the associated product shipments. The Company accrues for estimated warranty costs upon shipment of products in accordance with SFAS No. 5, "Accounting for Contingencies." Actual warranty costs incurred have not materially differed from those accrued. The Company's warranty policy is effective for shipped products which are considered defective or fail to meet the product specifications. 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. Significant management judgements and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period.

### Research and Development

Research and development expenditures are charged to operations as



## Edgar Filing: IRIDEX CORP - Form 10-K/A

incurred.

### Advertising

We expense advertising costs as they are incurred. Advertising expenses for 2001, 2000 and 1999 were \$408,000, \$478,000 and \$359,000, respectively.

### Fair Value of Financial Instruments

Carrying amounts of our financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair values due to their short maturities. Estimated fair values for available-for-sale securities, which are separately disclosed elsewhere, are based on quoted market prices for the same or similar instruments.

### 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.

### Accounting for Stock-based Compensation

The Company accounts for stock-based compensation arrangements in accordance with provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

Under APB 25, compensation expense for grants to employees is based on the difference, if any, on the date of the grant, between the fair value of the Company's stock and the option's exercise price. SFAS 123 defines a "fair value" based method of accounting for an employee stock option or similar equity investment. The pro forma disclosure of the difference between compensation expense included in net loss and the related cost measured by the fair value method is presented in Note 6.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees, or in Conjunction with Selling Good and Services," and Financial Accounting Standards Board Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plan" ("FIN 28").

### Concentration of Credit Risk and Other Risks and Uncertainties

Our cash and cash equivalents are deposited in demand and money market accounts of three financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally these deposits may be redeemed upon demand and therefore, bear minimal risk.

We market our products to distributors and end-users throughout the world. Sales to international distributors are generally made on open credit

## Edgar Filing: IRIDEX CORP - Form 10-K/A

terms and letter of credit. Management performs ongoing credit evaluations of our customers and maintains an allowance for potential credit losses. Historically, we have not experienced any significant losses related to individual customers or group of customers in any particular geographic area. For the years ended December 29, 2001, December 30, 2000 and January 1, 2000 no customer accounted for greater than 10% of revenue. As of December 29, 2001, December 30, 2000 and January 1, 2000 no customer accounted for greater than 10% of accounts receivable.

Our products require approvals from the Food and Drug Administration and international regulatory agencies prior to commercialized sales. Our future products may not receive required approvals. If we were denied such approvals, or if such approvals were delayed, it would have a materially adverse impact on our business, results of operations and financial condition.

### Reliance on Certain Suppliers

Certain components and services used by the Company to manufacture and develop its products are presently available from only one or a limited number of suppliers or vendors. The loss of any of these suppliers or vendors would potentially require a significant level of hardware and/or software development to incorporate the products or services into the Company's products.

### Use of Estimates

Management makes estimates and assumptions to prepare the consolidated financial statements in conformity with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Reclassification

Certain prior year amounts have been reclassified to conform to the current year's presentation. As a result of Iridex's disposal of its Laser Research segment in 2001, the Company's previously reported consolidated financial statements for 2000 and 1999 have been reclassified to present the discontinued Laser Research segment operations separate from continuing operations. (See Note 11.)

### Fiscal Year

Our fiscal year covers a 52 or 53 week period and ends on the Saturday nearest December 31. Fiscal year 1999, 2000 and 2001 all included 52 weeks.

### Net Income (loss) per Share

Basic and diluted net income 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.

### Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued SFAS No.

## Edgar Filing: IRIDEX CORP - Form 10-K/A

141 "Business Combinations," which establishes financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. It requires that all business combinations in the scope of this Statement are to be accounted for using one method, the purchase method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001, and also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. The Company believes that adoption of the standard will not have a material effect on the financial position or results of operations of the Company.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142 "Goodwill and Other Intangible Assets," which establishes financial accounting and reporting for acquired goodwill and other

intangible assets and supercedes APB Opinion No. 17, Intangible Assets. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition, after they have been initially recognized in the financial statements. The provisions of this Statement are effective starting with fiscal years beginning after December 15, 2001. The Company believes that SFAS No. 142 will not have a material effect on the financial position or results of operation of the Company.

In October 2001, the Financial Accounting Standards Board issued SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" that develops one accounting model for long lived assets that are to be disposed of by sales and requires long-lived assets that are to be disposed of by sales be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets to be Disposed Of." SFAS No. 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30 (APB 30), Reporting Results of Operations Reporting the Effects of Disposal of a segment of a business. Management does not expect the adoption of SFAS 144 to have a material impact on the Company's financial position and results of operations.

### 3. BALANCE SHEET DETAIL

Available-for-sale securities (in thousands):

	COST	UNREALIZED GAINS	ESTIMATED FAIR VALUE	
	-----	-----	-----	-----
As of December 29, 2001, available-for-sale securities consisted of the following:				
Government agencies.....	\$ 4,486	\$ 3	\$ 4,489	1
As of December 30, 2000, available-for-sale				

## Edgar Filing: IRIDEX CORP - Form 10-K/A

securities consisted of the following:

Government agencies.....	\$ 2,986	\$ 10	\$ 2,996
--------------------------	----------	-------	----------

There were no realized capital gains or losses recognized in 2001, 2000 and 1999.

	DECEMBER 29, 2001	DECEMBER 30, 2000
	-----	-----
	(IN THOUSANDS)	
Inventories:		
Raw materials and work in process.....	\$ 8,078	\$ 6,168
Finished goods.....	4,484	3,553
	-----	-----
Total inventories.....	\$12,562	\$ 9,721
	=====	=====
Property and Equipment:		
Equipment.....	\$ 3,202	\$ 3,229
Leasehold improvements.....	1,872	1,829
Less: accumulated depreciation and amortization.....	(3,539)	(3,155)
	-----	-----
Property and equipment, net.....	\$ 1,535	\$ 1,903
	=====	=====
Accrued Expenses:		
Accrued payroll, vacation and related expenses.....	\$ 870	\$ 1,057
Accrued warranty.....	582	728
Income taxes payable.....	--	404
Sales and use tax payable.....	266	195
Deferred revenue.....	329	146
Other accrued expenses.....	732	587
	-----	-----
Total accrued expenses.....	\$ 2,779	\$ 3,117
	=====	=====

#### 4. BANK BORROWINGS

We have a revolving line of credit agreement with a bank expiring on October 5, 2002, which provides for borrowings of up to \$4.0 million at the bank's prime rate (4.75% at December 29, 2001). The agreement contains restrictive covenants including prohibiting payment of dividends without the bank's prior consent. There were no borrowings against the credit line at December 29, 2001.

#### 5. COMMITMENTS AND CONTINGENCIES

##### Lease Agreements

We lease our operating facilities under a noncancelable operating lease. The lease, which expires in 2002, was renewed for two years. Rent expense, net of sublease income, totaled \$498,000, \$289,000 and \$282,000 for the years ended December 29, 2001, December 30, 2000 and January 1, 2000 respectively. Rental income related to a facility sublease was \$11,000, \$262,000 and \$183,000 for the years ended December 29, 2001, December 30, 2000 and January 1, 2000,

## Edgar Filing: IRIDEX CORP - Form 10-K/A

respectively.

Future minimum lease payments under current operating leases at December 29, 2001 are summarized as follows (in thousands):

Fiscal Year -----	Operating Lease Payments -----
2002	650
2003	687
2004	115
	-----
	\$1,452
	=====

### License Agreements

The Company is obligated to pay royalties equivalent to 5% and 7.5% of sales on certain products under certain license agreements. Royalty expense was \$85,000, \$21,000 and \$42,000 for the years ended December 29, 2001, December 30, 2000 and January 1, 2000, respectively.

### Contingencies

From time to time, the Company may be engaged in certain administrative proceedings, incidental to its normal business activities. Management believes that liabilities resulting from such proceedings, or claims which are pending or known to be threatened, are adequately covered by liability insurance and will not have a material adverse effect on the Company's financial position or results of operations.

## 6. STOCKHOLDERS' EQUITY

### CONVERTIBLE PREFERRED STOCK

Our Articles of Incorporation authorize 2,000,000 shares of undesignated preferred stock. Preferred Stock may be issued from time to time in one or more series. As of December 29, 2001, we had no preferred stock issued and outstanding.

### TREASURY STOCK

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 our employee stock programs. We repurchased 76,000 shares of Common Stock for \$315,000 in 1999. In 2000, no shares of Common Stock were repurchased. In 2001, we repurchased 27,000 shares of Common Stock for \$115,000.

### STOCK OPTION PLANS

#### Amended and Restated 1989 Incentive Stock Plan

The Amended and Restated 1989 Plan (the "1989 Plan") provided for the grant of options and stock purchase rights to purchase shares of our Common

## Edgar Filing: IRIDEX CORP - Form 10-K/A

Stock to employees and consultants. The terms of the 1989 Plan, which expired in August 1999, are substantially the same as the 1998 Plan described below.

### 1998 Stock Plan

The 1998 Stock Plan (the "1998 Plan") provides for the granting to employees (including officers and employee directors) of incentive stock options and for the granting to employees (including officers and employee directors) and consultants of nonstatutory stock options and stock purchase rights ("SPRs"). The exercise price of incentive stock options and SPRs granted under the 1998 Plan must be at least equal to the fair market value of the shares at the time of grant. With respect to any recipient who owns stock possessing more than 10% of the voting power of our outstanding capital stock, the exercise price of any option or SPR

granted must be at least equal to 110% of the fair market value at the time of grant. Options granted under the 1998 Plan are exercisable at such times and under such conditions as determined by the Administrator; generally over a four year period. The maximum term of incentive stock options granted to any recipient must not exceed ten years; provided, however, that the maximum term of an incentive stock option granted to any recipient possessing more than 10% of the voting power of our outstanding capital stock must not exceed five years. In the case of SPRs, unless the Administrator determines otherwise, we have a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment with us for any reason (including death or disability). Such repurchase option lapses at a rate determined by the Administrator. The purchase price for shares repurchased by us is the original price paid by the purchaser. The form of consideration for exercising an option or stock purchase right, including the method of payment, is determined by the Administrator. The 1998 Plan expires in June 2008.

### 1995 Director Option Plan

In October 1995, we adopted the 1995 Director Option Plan (the "Director Plan"), under which members of the Board of Directors are granted options to purchase 11,250 shares upon the first to occur of their appointment or the adoption of the Director Plan ("First Option") and an option to purchase 3,750 shares ("Subsequent Option") on July 1 of each year thereafter provided that he or she has served on the Board for at least the preceding six months. The options granted are at fair market value on the date of grant. The First Option becomes exercisable as to one-twelfth (1/12) of the shares subject to the First Option for each quarter over a three-year period. Each Subsequent Option becomes exercisable as to one-fourth (1/4) of the shares subject to the Subsequent Option for each quarter, commencing one quarter after the First Option and any previously granted Subsequent Options have become fully exercisable. Options granted under the Director Plan have a term of 10 years.

In the event of our merger with or into another corporation, resulting in a change of control, or the sale of substantially all of our assets, each Director Plan option becomes exercisable in full and shall be exercisable for 30 days after written notice to the holder of the event causing the change in control.

Unless terminated sooner, the Director Plan will terminate in 2005. The Board has authority to amend or terminate the Director Plan, provided no such amendment may impair the rights of any optionee without the optionee's consent.

### 1995 Employee Stock Purchase Plan

Our 1995 Employee Stock Purchase Plan (the "Purchase Plan") was adopted

## Edgar Filing: IRIDEX CORP - Form 10-K/A

by the Board of Directors in October 1995. On April 28, 1997, the shareholders approved an amendment to increase the total number of shares of common stock for issuance under the Purchase Plan from 50,000 to 100,000. The Purchase Plan permits eligible employees (including officers and employee directors) to purchase Common Stock through payroll deductions, which may not exceed 10% of an employee's compensation. No employee may purchase more than \$25,000 worth of stock in any calendar year or more than 1,000 shares of Common Stock in any twelve-month period. The price of shares purchased under the Purchase Plan is 85% of the lower of the fair market value of the Common Stock at the beginning of the offering period or the end of the offering period. The Purchase Plan will terminate in 2005, unless terminated sooner by the Board of Directors.

Information with respect to activity under these option plans are set forth below (in thousands except share and per share data):

	OUTSTANDING OPTIONS			
	SHARES AVAILABLE FOR GRANT	NUMBER OF SHARES	AGGREGATE PRICE	WEIGHTED AVERAGE EXERCISE PRICE
Balances, January 2, 1999 .....	188,744	1,317,501	\$ 5,419	\$4.11
Additional shares reserved .....	150,000	--	--	--
Options granted .....	(218,394)	218,394	1,128	5.16
Options exercised .....		(47,568)	(107)	1.89
Options expired .....	(11,819)			
Options terminated .....	81,134	(81,134)	(364)	4.45
	-----	-----	-----	
Balances, January 1, 2000 .....	189,665	1,407,193	\$ 6,076	\$4.31
Additional shares reserved .....	260,000	--	--	--
Options granted .....	(384,700)	384,700	3,570	9.28
Options exercised .....		(120,173)	(318)	2.64
Options expired .....	(82,560)			
Options terminated .....	181,407	(181,407)	(1,036)	5.71
	-----	-----	-----	
Balances, December 30, 2000 .....	163,812	1,490,313	\$ 8,292	\$5.56
Additional shares reserved .....	290,000	--	--	--
Options granted .....	(368,050)	368,050	1,512	4.11
Options exercised .....		(74,942)	(100)	1.61
Options expired .....	(29,068)			
Options terminated .....	126,604	(126,604)	(873)	7.07
	-----	-----	-----	
Balances, December 29, 2001 .....	183,298	1,656,817	\$ 8,831	\$5.34
	=====	=====	=====	

The following table summarizes information with respect to stock options outstanding at December 29, 2001:

RANGE OF	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE

Edgar Filing: IRIDEX CORP - Form 10-K/A

EXERCISE PRICES	AT 12/29/01	(YEARS)	PRICE	AT 12/29/01	PRICE
\$0.16 - \$2.00	136,549	2.90	\$1.17	136,549	\$1.17
\$3.71 - \$3.71	203,800	9.55	3.71	0	0.00
\$3.90 - \$3.94	23,000	8.63	3.91	6,132	3.94
\$4.00 - \$4.00	457,086	5.77	4.00	387,425	4.00
\$4.03 - \$4.88	199,357	8.08	4.35	78,321	4.42
\$5.00 - \$5.75	178,925	6.99	5.46	110,825	5.55
\$6.25 - \$8.88	203,500	6.47	8.27	150,603	8.23
\$9.00 - \$9.25	189,600	8.29	9.09	80,246	9.10
\$9.50 - \$12.75	57,500	8.66	11.18	14,828	10.92
\$14.88 - \$14.88	7,500	4.50	14.88	7,500	14.88
	-----			-----	
\$0.16 - \$14.88	1,656,817	6.92	5.34	972,249	5.08
	=====			=====	

At December 30, 2000 and January 1, 2000 options to purchase 762,123 and 624,025 shares of Common Stock were exercisable at weighted average exercise prices of \$4.29 and \$3.53, respectively.

The following information concerning our stock option and employee stock purchase plans is provided in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation." We account for such plans in accordance with Accounting Principles Board No. 25 and related Interpretations.

The fair value of each option grant has been estimated on the date of grant using the Black-Scholes multiple option pricing model with the following weighted average assumptions:

	2001		2000		1999	
	GROUP A	GROUP B	GROUP A	GROUP B	GROUP A	GROUP B
Risk-free Interest Rates....	4.45%	4.40%	6.00%	6.19%	5.58%	5.34%
Expected Life from Date of Vesting.....	3 yrs.	2 yrs.	3 yrs.	2 yrs.	3 yrs.	2 yrs.
Volatility.....	0.90	0.90	0.78	0.78	0.78	0.78
Dividend Yield.....	--	--	--	--	--	--

The weighted average expected life was calculated based on the exercise behavior of each group. Group A represents officers and directors who are a smaller group holding a greater average number of options than other option holders and who tend to exercise later in the vesting period. Group B are all other option holders, virtually all of whom are employees. This group tends to exercise earlier in the vesting period.

The weighted average grant-date fair value per share of those options granted in 2001, 2000 and 1999 was \$2.82, \$5.96 and \$3.37, respectively.

We have also estimated the fair value for the purchase rights issued under our 1995 Employee Stock Purchase Plan, under the Black-Scholes valuation model using the following assumptions for 2001, 2000 and 1999:



Edgar Filing: IRIDEX CORP - Form 10-K/A

	2001 -----	2000 -----	1999 -----
Risk-free Interest Rates....	4.63%	5.67%	4.91%
Expected Life.....	0.5 year	0.5 year	0.5 year
Volatility.....	0.90	0.78	0.78
Dividend Yield.....	--	--	--

The weighted average grant-date fair value per share of those purchase rights granted in 2001, 2000 and 1999 was \$2.11, \$2.94 and \$1.55, respectively.

The following pro forma income (loss) information has been prepared following the provisions of SFAS No. 123:

	2001 -----	2000 -----	1999 -----
	(amounts in thousands except per share data)		
Net income (loss) -- as reported .....	\$(1,273)	\$2,416	\$1,618
Net income (loss) -- pro forma .....	\$(2,000)	\$1,640	\$ 768
Net income (loss) per common share -- as reported .....	\$ (0.19)	\$ 0.36	\$ 0.25
Net income (loss) per common share -- pro forma .....	\$ (0.30)	\$ 0.25	\$ 0.12
Diluted net income (loss) per common share -- as reported .....	\$ (0.19)	\$ 0.33	\$ 0.24
Diluted net income (loss) per common share -- pro forma .....	\$ (0.30)	\$ 0.23	\$ 0.11

7. EMPLOYEE BENEFIT PLAN

We have a plan known as the IRIS Medical Instruments 401(k) trust to provide retirement benefits through the deferred salary deductions for substantially all employees. Employees may contribute up to 15% of their annual compensation to the plan, limited to a maximum amount set by the Internal Revenue Service. The plan also provides for Company contributions at the discretion of the Board of Directors. On April 1, 2000 the Company commenced a Company match for the 401(k) in the amount of 50% of employee contributions up to an annual maximum of \$1,000 per year. The Company contributions in fiscal 2001 totaled \$99,000. The Company contributions in fiscal 2000 totaled \$64,000. No contributions were made in fiscal 1999.

8. INCOME TAXES

The provision for income taxes includes:

YEAR ENDED DECEMBER 29, 2001 -----	YEAR ENDED DECEMBER 30, 2000 -----	YEAR ENDED JANUARY 1, 2000 -----
---	---	---

Edgar Filing: IRIDEX CORP - Form 10-K/A

(IN THOUSANDS)

Current:			
Federal .....	\$ (750)	\$855	\$1,242
State .....	--	28	286
	-----	-----	-----
	(750)	883	1,528
	-----	-----	-----
Deferred:			
Federal .....	(184)	(96)	(613)
State .....	(28)	22	(233)
	-----	-----	-----
	(212)	(74)	(846)
	-----	-----	-----
Income tax (benefit) provision .....	\$ (962)	\$809	\$ 682
	=====	=====	=====

The Company's effective tax rate differs from the statutory federal income tax rate as shown in the following schedule:

	YEAR ENDED DECEMBER 29, 2001	YEAR ENDED DECEMBER 30, 2000	YEAR ENDED JANUARY 1, 2000
	-----	-----	-----
Income tax provision (benefit) at statutory rate ....	(34)%	34%	34%
State income taxes, net of federal benefit .....	(5)%	6%	6%
Tax exempt interest .....	(3)%	(3)%	(3)%
Nondeductible permanent differences .....	4%	0%	0%
Research and experimental credits .....	(28)%	(10)%	(10)%
Other .....	4%	1%	5%
	-----	-----	-----
Effective tax rate .....	(62)%	28%	32%
	=====	=====	=====

In 2001, the Company's effective rate was a benefit of 62% primarily as a result of the level of tax credits for research and development activities relative to the loss for 2001.

The tax effect of temporary differences and carry-forwards that give rise to significant portions of the net deferred tax assets are presented below (in thousands):

	DECEMBER 29, 2001	DECEMBER 30, 2000
	-----	-----
Fixed assets .....	\$ 304	\$ 487
Accrued liabilities .....	419	467
Allowance for excess and obsolete inventories .....	287	151
Research credit .....	437	329
State tax .....	1	--
Allowance for doubtful accounts .....	127	186
Other .....	349	(28)

Edgar Filing: IRIDEX CORP - Form 10-K/A

Net deferred tax asset .....	----- \$1,924 =====	----- \$ 1,592 =====
------------------------------	---------------------------	----------------------------

9. MAJOR CUSTOMERS AND BUSINESS SEGMENTS

We operate in two reportable segments: the ophthalmology medical device segment and the dermatology 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.

In the years ended December 29, 2001, December 30, 2000 and January 1, 2000, no customer individually accounted for more than 10% of our revenue.

Revenue information shown in thousands by geographic region is as follows:

	DECEMBER 29, 2001 -----	DECEMBER 30, 2000 -----	JANUARY 1, 2000 -----
United States .....	\$16,004	\$21,133	\$16,134
Europe .....	5,530	5,475	4,611
Rest of Americas .....	809	1,283	1,689
Asia/Pacific Rim .....	4,932	4,947	3,957
	-----	-----	-----
	\$27,275	\$32,838	\$26,391
	=====	=====	=====

Revenues are attributed to countries based on location of customers.

In the years ended December 29, 2001, January 1, 2000 and January 1, 2000, no country individually accounted for more than 10% of our sales, except for the United States, which accounted for 58.7 % of sales in 2001, 64.4% in 2000 and 61.1% in 1999.

Information on reportable segments for the three years ended December 29, 2001, December 30, 2000 and January 1, 2000 is as follows:

	YEAR ENDED DECEMBER 29, 2001			YEAR ENDED DECEMBER 30, 2000			Ophth
	Ophthalmology Medical Devices	Dermatology Medical Devices	Total	Ophthalmology Medical Devices	Dermatology Medical Devices	Total	
Sales	\$20,922	\$6,353	\$ 27,275	\$27,065	\$5,773	\$32,838	
Direct Cost of Goods Sold	6,772	2,595	9,367	7,796	2,051	9,847	
Direct Gross Margin	14,150	3,758	17,908	19,269	3,722	22,991	
Total Unallocated							

Edgar Filing: IRIDEX CORP - Form 10-K/A

Costs	--	--	19,471	--	--	20,102
Pre-tax income						
(loss)			\$ (1,563)			\$ 2,889

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

The Company's assets and liabilities are not evaluated on a segment basis. Accordingly, no disclosure on segment assets and liabilities is provided.

10. COMPUTATION OF NET INCOME PER COMMON SHARE AND PER DILUTED COMMON SHARE

A reconciliation of the numerator and denominator of net income per common share and diluted net income per common share is provided as follows (in thousands, except per share amounts):

	YEAR ENDED DECEMBER 29, 2001	YEAR END DECEMBER 2000
	-----	-----
Numerator -- Net income (loss) per common share and per diluted common share		
Net income (loss) .....	\$ (1,273)	\$2,41
	=====	=====
Denominator -- Net income (loss) per common share		
Weighted average common stock outstanding .....	6,757	6,63
	=====	=====
Net income (loss) per common share .....	\$ (0.19)	\$ 0.3
	=====	=====
Denominator -- Diluted net income (loss) per common share		
Weighted average common stock outstanding .....	6,757	6,63
Effect of dilutive securities		
Weighted average common stock options .....	--	64
	-----	-----
Total weighted average stock and options outstanding .....	6,757	7,28
	=====	=====
Diluted net income (loss) per common share .....	\$ (0.19)	\$ 0.3
	=====	=====

During 2000 and 1999, there were 62,930, and 431,077 outstanding options to purchase shares, respectively, at a weighted average exercise price of \$9.82, and \$5.28 per share, respectively, were not included in the computations of diluted net income per common share since, in each, case the exercise price of the common shares exceeded the market price of the related options. During 2001, options to purchase 1,656,817 shares at a weighted average exercise price of \$5.34 were outstanding but were not included in the computation of diluted net loss per common share because their effect was antidilutive. These options could dilute earnings per share in future periods.

11. SELECTED QUARTERLY FINANCIAL DATA, (UNAUDITED)

QUARTER

Edgar Filing: IRIDEX CORP - Form 10-K/A

	FIRST -----	SECOND -----	THIRD -----
	(IN THOUSANDS, EXCEPT PER SHARE AMO		
Year Ended December 29, 2001			
Sales .....	\$ 5,735	\$7,088	\$6,750
Gross profit .....	\$ 2,363	\$3,697	\$3,498
Income (loss) from continuing operations .....	\$ (924)	\$ 11	\$ 171
Income (loss) from discontinued operations .....	\$ (893)	\$ --	\$ --
Net income (loss) .....	\$ (1,817)	\$ 11	\$ 171
Net income (loss) per common share .....	\$ (0.27)	\$ 0.00	\$ 0.03
Diluted income (loss) from continuing operations per common share .....	\$ (0.14)	\$ 0.00	\$ 0.02
Diluted income (loss) from discontinued operations per common share .....	\$ (0.13)	\$ 0.00	\$ 0.00
Diluted net income (loss) per common share .....	\$ (0.27)	\$ 0.00	\$ 0.02
Year Ended December 30, 2000			
Sales(1) .....	\$ 7,996	\$8,818	\$8,213
Gross profit(1) .....	\$ 4,659	\$5,147	\$4,441
Income (loss) from continuing operations .....	\$ 644	\$ 790	\$ 422
Income (loss) from discontinued operations .....	\$ 109	\$ (32)	\$ 172
Net income (loss) .....	\$ 711	\$ 716	\$ 561
Net income (loss) per common share .....	\$ 0.11	\$ 0.11	\$ 0.08
Diluted income (loss) from continuing operations per common share .....	\$ 0.09	\$ 0.10	\$ 0.06
Diluted income (loss) from discontinued operations per common share .....	\$ 0.00	\$ 0.00	\$ 0.02
Diluted net income (loss) per common share .....	\$ 0.09	\$ 0.10	\$ 0.08

(1) Sales and Cost of Sales amounts for 2000 have been revised to reflect impact of discontinued operations.

12. DISCONTINUED OPERATIONS

In April 2001, we discontinued our Laser Research segment. In the first quarter of 2001, we recorded a loss of \$893,000 (net of a \$542,000 tax benefit). In the fourth quarter of 2001, we adjusted the loss on discontinued operations to \$672,000 (net of a \$439,000 tax benefit). Revenues for

this segment were \$599,000 for 2000 and \$460,000 for 1999. Costs and operating expenses of the Laser Research segment were \$132,000 for 2000 and \$209,000 for 1999. Sales, general and administrative costs and indirect costs of manufacturing historically were not allocated to the Laser Research segment.

12. SUBSEQUENT EVENTS

On January 13, 2002 a customer announced that the phase III clinical trial of SnET2, a photodynamic drug activated by the OcuLight 664 laser system for use in the treatment of wet AMD, did not meet the primary efficacy endpoint of the study. As a result, the Company included a pretax charge in the fourth quarter to cost of sales of \$287,000 to reserve inventory associated with the OcuLight 664 system.

Exhibits            Exhibit Title

Edgar Filing: IRIDEX CORP - Form 10-K/A

23.1 Consent of Price WaterhouseCoopers LLP, Independent Accountants

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Mountain View, State of California, on 10th day of April, 2002.

IRIDEX CORPORATION

By: /s/ Robert Kamenski

Robert Kamenski  
Chief Financial Officer and Vice  
President, Administration

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Theodore A. Boutacoff and Robert Kamenski, jointly and severally, their attorney-in-fact, each with full power of substitution, for him in any and all capacities, to sign on behalf of the undersigned any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and each of the undersigned does hereby ratifying and confirming all that each of said attorneys-in-fact, of his substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

/s/ * ----- (Theodore A. Boutacoff)	President, Chief Executive Officer, and Director (Principal Executive Officer)	April 10, 2002
/s/ Robert Kamenski ----- (Robert Kamenski)	Chief Financial Officer and Vice President, Administration (Principal Financial and Accounting Officer)	April 10, 2002
/s/ * ----- (James L. Donovan)	Vice President, Corporate Business Development and Director	April 10, 2002
/s/ * ----- (Robert K. Anderson)	Director	April 10, 2002
/s/ * ----- (Donald L. Hammond)	Director	April 10, 2002

Edgar Filing: IRIDEX CORP - Form 10-K/A

/s/ *	Director	April 10, 200
-----		
(Joshua Makower)		
/s/ *	Chairman of the Board	April 10, 200
-----		
(John M. Nehra)		
*By: /s/ Robert Kamenski		
-----		
Attorney-in-Fact		

-61-

EXHIBIT INDEX

Exhibits	Exhibit Title
-----	-----
23.1	Consent of Price WaterhouseCoopers LLP, Independent Accountants