

**Audit Committee Charter
of the Audit Committee of the Board of Directors of
Irvine Sensors Corporation**

Restated and Amended as of December 10, 2003

1. Purposes.

The primary purposes of the Audit Committee (the "*Committee*") of Irvine Sensors Corporation (the "*Company*") are to oversee on behalf of the Company's Board of Directors (the "*Board*"): (a) the conduct of the Company's accounting and financial reporting processes and the integrity of the Company's audited financial statements and other financial reports; (b) the performance of the Company's internal accounting and financial controls function; (c) the engagement, replacement, compensation, qualification, independence and performance of the Company's independent auditors, and (d) the portions of the Company's Code of Ethics that relate to the integrity of the Company's financial reporting. The Committee's function is one of oversight only and shall not relieve the responsibilities of the Company's management for preparing financial statements that accurately and fairly present the Company's financial results and condition, or the responsibilities of the independent auditors relating to the audit or review of financial statements.

2. Composition.

(a) At Least Three Members. The Committee shall consist of at least three independent directors as defined in Section 2(b) below. The Board shall designate a Committee member as the Chairperson of the Committee, or if the Board does not do so, the Committee members shall appoint a Committee member as Chairperson by a majority vote of the authorized members of the Committee members.

(b) Independence. All members of the Committee shall be "*independent*" as defined in the listing standards of the Nasdaq Stock Market or such other national securities exchange on which the Company's securities are then listed, as the same may be amended from time to time (the "*listing standards*"), the rules and regulations of the Securities and Exchange Commission (the "*SEC*") and any other laws applicable to the Company. No Committee member shall be an affiliated person of the Company or receive any compensation other than in his or her capacity as a member of the Committee, the Board of Directors or other Board committee, or as otherwise permitted by the listing standards and the SEC rules.

(c) Financial Literacy. Each member of the Committee shall be financially literate upon appointment to the Committee, as such qualification is interpreted by the Company's Board of Directors in its business judgment under the listing standards. At least one member of the Committee shall be an "audit committee financial expert" as defined in applicable SEC rules and regulations.

(d) Appointment. Subject to the requirements of the listing standards and the bylaws of the Company, the Board shall appoint the Committee members at the first meeting of the Board following the Annual Meeting of Stockholders. Members of the Committee shall continue to be Committee members until their successors are appointed and qualified or until their earlier retirement, resignation or removal. Any member may be removed, with or without cause, by the approval of a majority of the independent directors then serving on the full Board. The Board may fill any vacancies on the Committee by a majority vote of the directors then in office.

(e) Service on Other Audit Committees. No director is eligible to serve on the Committee if he or she serves on more than three public company audit committees (including the Committee).

3. Meetings; Reports and Resources of the Committee.

(a) Meetings. The Committee shall meet as often as it determines necessary or advisable, but not less frequently than four times per year and in executive session at least twice a year. The Committee may also hold special meetings or act by unanimous written consent as the Committee may decide. The meetings may be in person or telephone. The Committee shall keep written minutes of its meetings and shall deliver a copy of such minutes to the Board and to the Corporate Secretary of the Company for inclusion in the Company's minute books. The

Committee shall meet periodically with management, the internal auditors and the independent auditors in separate executive sessions. The Committee may request any officer or employee of the Company or the Company's independent counsel or the independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. Notwithstanding the foregoing, the Committee may also exclude from its meetings any persons it deems appropriate, including but not limited to, any director who is not a member of the Committee.

(b) Procedures. The Committee may establish its own procedures, including the formation and delegation of authority to subcommittees, in a manner not inconsistent with this Charter, the Company's Bylaws, applicable laws or regulations, or the listing standards. The Chairperson or majority of the Committee members may call meetings of the Committee. A majority of the authorized number of Committee members shall constitute a quorum for the transaction of Committee business, and the vote of a majority of the Committee members present at the meeting at which a quorum is present shall be the act of the Committee, unless in either case a greater number is required by this Charter, the Company's Bylaws, applicable laws or regulations, or the listing standards. Reports. The Committee shall make regular reports to the Board of its findings, including any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, and the performance and independence of the Company's independent auditors. The Committee shall provide to the Board at an appropriate time prior to preparation of the Company's proxy statement for its Annual Meeting of Stockholders, a report of the Committee, which report shall be included in such proxy statement. The report shall include such information as may be required under the SEC's rules.

(c) Committee Access and Resources. The Committee is at all times authorized to have direct, independent and confidential access to the Company's other directors, management and personnel, as well as to the Company's books, records and facilities to carry out the Committee's purposes. The Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other experts and advisors. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditors for the purpose of rendering or issuing an audit report and to any experts and advisors employed by the Committee.

4. Authority and Responsibilities.

The Committee's role is one of oversight. The Company's management is responsible for preparing the Company's financial statements and for their accuracy, and the Company's independent auditors are responsible for auditing those financial statements. While the Committee has certain authority and oversight responsibilities under this Charter, it is not the responsibility of the Committee to plan or conduct audits. In the absence of their reason to believe that such reliance is unwarranted, the Committee members may rely without independent verification on the information provided to them and on the representations made by the Company's management and independent auditors.

Additionally, the Committee recognizes that the Company's management, as well as the Company's independent auditors, have more time, knowledge and more detailed information concerning the Company than do Committee members. Consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to work of the Company's independent auditors. In addition, auditing literature, particularly Statement of Auditing Standards No. 71, defines the term "review" to include a particular set of required procedures to be undertaken by independent auditors. The Committee members are not independent auditors, and the term "review" as applied to the Committee in this Charter is not intended to have that meaning and should not be interpreted to suggest that the Committee members can or should follow the procedures required of auditors performing reviews of financial statements. Furthermore, the Committee's authority and oversight responsibilities do not assure that the audits of the Company's financial statements have been carried out in accordance with generally accepted auditing standards.

The following functions and responsibilities are set forth as a guide with the understanding that the Committee has the authority to diverge from this guide as appropriate given the circumstances. The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible to best react to changing conditions and circumstances, and that the Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behavior.

To fulfill its purpose, the Committee shall:

- (a) Have the direct responsibility for the appointment, retention, evaluation, compensation, and oversight of the work of the Company's independent auditors and, if necessary or advisable in the Committee's sole discretion, to terminate the Company's independent auditors. The Company's independent auditors shall report directly to the Committee, and the Committee's responsibility includes the resolution of disagreements between management and the independent auditors regarding financial reporting.
- (b) Review and evaluate the lead partner of the independent auditors, and ensure the rotation of audit partners as required by law.
- (c) Periodically obtain and review a report by the Company's independent auditors describing: (i) the firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) all relationships between the Company and its independent auditors (to be set out in the formal written statement described in paragraph (s) below).
- (d) On an annual basis, request and obtain from the Company's independent auditors a formal written statement delineating all relationships between the independent auditors and the Company, consistent with Independence Standards Board Standard No. 1 or similar requirements as may be issued in the future by authoritative standards setting or regulatory bodies. The Committee shall actively engage in a dialogue with the Company's management and independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors from management and the Company and take appropriate action in response to the independent auditors' report to satisfy itself of the independent auditors' objectivity and independence. The Committee shall also: (i) confirm with the independent auditors that the independent auditors are in compliance with the partner rotation requirements established by the SEC, (ii) set clear policies for the Company's hiring of employees or former employees of the Company's independent auditors; and (iii) if applicable, consider whether the independent auditors' provision of any permitted non-audit services to the Company is compatible with maintaining the independence of the independent auditors.
- (e) Consider and pre-approve all auditing and non-audit services provided by the Company's independent auditors. All non-audit services permitted pursuant to law to be provided by the independent auditors must be considered and pre-approved by the Committee and such approvals must be disclosed in the Company's Annual Report on Form 10-K. The Committee may delegate the authority to grant pre-approvals to one or more members of the Committee, whose decisions must be presented to the full Committee at its next scheduled meeting.
- (f) Set clear hiring policies for employees or former employees of the independent auditor that are consistent with Section 10(A)(1) of the Exchange Act.
- (g) Consider and review with the Company's independent auditors and management: (i) the adequacy and effectiveness of the Company's disclosure controls and procedures and other internal controls; (ii) all significant deficiencies in the design or operation of the Company's internal controls that could adversely affect the Company's ability to record, process, summarize and report financial data; (iii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; (iv) the adequacy and effectiveness of those portions of the Company's Code of Ethics that relate to the integrity of the Company's financial reporting; and (v) the related findings and recommendations of the Company's independent auditors together with management's responses.

(h) Consider and review with management, the Chief Financial Officer and/or the Controller, and the Company's independent auditors: (i) any significant findings during the year, including the status of previous audit recommendations; (ii) any audit problems or difficulties encountered in the course of audit work including any restrictions on the scope of activities or access to required information; (iii) the overall scope and plans for the audit (including the audit budget and the adequacy of compensation and staffing); (iv) any changes required in the planned scope of the audit; and (v) the coordination of audit efforts to monitor completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.

(i) Inquire of management, the Chief Financial Officer and/or the Controller and the Company's independent auditors about significant risks or exposures and assess the steps management has taken to minimize such risks. Discuss with management, the Chief Financial Officer and/or the Controller and the Company's independent auditors the Company's systems and policies with respect to risk monitoring, assessment and management.

(j) Establish and maintain procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.

(k) Inquire of management and the Company's independent auditors about whether significant new transactions or other significant matters or events not in the ordinary course of business have occurred and their views of the accounting treatment given thereto.

(l) Review periodically with legal counsel any legal and regulatory matters that may have a material impact on the Company's financial statement compliance policies and programs.

(m) Review periodically with senior management the provisions of the Company's Code of Ethics (including the Company's policies and procedures with regard to trading by Company personnel in securities of the Company and use of proprietary or confidential information owned by third parties) bearing on the integrity of financial reporting including any waivers provided under such Code since the last review. (n) Review and discuss with management and the Company's independent auditors the accounting policies that may be viewed as critical, and review and discuss any significant changes in the accounting policies of the Company and any potential changes in accounting, auditing, review and financial reporting standards and regulations promulgated by authoritative standard setting or regulatory bodies that may have a significant impact on the Company's financial reports. Inquire of and consider the Company's independent auditors' views about management's choices among alternative accounting principles and the quality, not just the acceptability, of the Company's accounting principles as applied in its financial reporting.

(n) Review with management and the independent auditor any correspondence with regulators and any published reports that raise material issues regarding the Company's accounting policies or financial disclosures.

(o) Review and discuss with management and the independent auditors any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with entities of which the Committee is made aware whose accounts are not consolidated in the financial statements of the Company and that may have a material current or future effect on the Company's financial condition, results of operations, liquidity, capital expenditures, capital resources or significant components of revenues or expenses.

(p) Review and discuss with management and the Company's independent auditors any transactions or courses of dealing with related parties (e.g., including significant stockholders of the Company, directors, corporate officers or other members of senior management or their family members). In such review consider: (i) the financial accounting accorded the transaction(s) or course of action; (b) whether the terms or other aspects differ from those that would likely be negotiated with independent parties; and (c) whether the proposed disclosure of the transaction(s) or course of dealing, if any, is in accordance generally accepted accounting principles. Upon completion of such review, the Audit Committee shall either approve or disapprove (with referral to the Company's Board of Directors) each reviewed related party transaction(s) or course of action.

(q) Review with the independent auditors: (i) all of their significant findings during the year, including the status of previous audit recommendations, (ii) any significant unadjusted audit differences, and (iii) any "management" or "internal control" letter issued by the independent auditors to the Company.

(r) Review and discuss or otherwise have the opportunity to comment on earnings press releases (including the use of "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and/or rating agencies prior to any public disclosure thereof.

(s) Review the Company's financial statements, and, as part of that review, (i) review with management and the independent auditors, prior to public release: (A) the Company's annual and quarterly financial statements to be filed with the SEC; (B) the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations;" (C) any certifications regarding the financial statements or the Company's internal accounting and financial controls and procedures and disclosure controls or procedures by the Company's CEO or CFO that will be filed with or furnished to the SEC; and (ii) discuss with the independent auditors the matters that the independent auditors inform the Committee are required to be discussed under applicable auditing standards; and (iii) make a recommendation to the Board of Directors regarding the inclusion of the audited annual financial statements in the Company's Annual Report on Form 10-K to be filed with the SEC.

(t) Meet separately with the independent auditors without any management member present before the release of the annual audited financial statements, and discuss (i) the adequacy of the Company's system of internal accounting and financial controls; (ii) the appropriateness of the accounting principles used in and the judgments made in the preparation of the Company's audited financial statements; (iii) the quality of the Company's financial reports; and (iv) any audit problems or difficulties, and management's response to such problems and difficulties.

(u) Prepare a report to be included in the Company's annual proxy statement stating whether or not the Committee (i) has reviewed and discussed the audited financial statements with management; (ii) has discussed with the Company's independent auditors the matters (if any) that the Company's independent auditors have informed the Committee are required to be discussed under applicable auditing standards; (iii) has received the written disclosure and letter from the independent accountants (delineating all relationships they have with the Company) and has discussed with them their independence; and (iv) based on the review and discussions referred to above, the members of the Committee recommended to the Board that the audited financials be included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

(v) Conduct an annual self-evaluation of the performance of the Committee, including its effectiveness and compliance with its Charter.

(w) Review and reassess, at least annually, the adequacy of this Charter and submit any recommended changes to the Board for its consideration.