



IRVINE SENSORS
CORPORATION

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IRVINE SENSORS ACQUIRES OPTEX SYSTEMS, INC.

FOR IMMEDIATE RELEASE

COSTA MESA, CALIFORNIA – January 3, 2006 -- Irvine Sensors Corporation (Nasdaq: IRSN, Boston Stock Exchange: ISC) announced today that it has purchased 70% of the stock of Optex Systems, Inc., a privately held company located in Richardson, Texas. Founded in 1987, Optex manufactures optical sighting systems and assemblies primarily for U.S. Department of Defense (DOD) applications. Its products are installed on the majority of U.S. military land vehicles, such as the Abrams and Bradley fighting vehicles, Light Armored and Advanced Security Vehicles and have been selected for installation on the Future Combat Systems (FCS) Stryker vehicle. Optex's revenues for calendar 2005 were approximately \$19 million.

John Carson, Chief Executive Officer and President of Irvine Sensors, said, "The acquisition of Optex not only nearly doubles our revenues, it accelerates our transition toward a product-dominated business with the ability to more aggressively exploit our advanced technology. Optex profitably delivers high volume products, under multi-year contracts, to many of the same customers that are central to our core vision systems business strategy. Optex has an enviable reputation and credibility with those customers as a reliable supplier. We believe this transaction will not only enhance their ability to serve their existing customers, but will also set the stage for them to become a center of manufacturing excellence for our products as well. We also look forward to the prospects of integrating some of our night vision and laser imaging technologies with Optex's optical sights to expand both of our addressable markets."

Optex manufactures and delivers numerous periscope configurations, rifle and surveillance sights and night vision optical assemblies. It delivers its products both directly to the military services and to prime contractors for military land vehicles. Tim Looney, founder and President of Optex Systems, said, "From the beginning of our interaction, it was apparent that the marriage of

Irvine Sensors' technology and Optex's manufacturing and market presence could be a powerful combination. I look forward to the challenges of exploiting that opportunity."

Irvine Sensors' purchase price for the transaction was \$14 million in cash, subject to adjustment upon completion of Optex's 2005 audit, plus a cash earnout of up to \$4 million payable over the next three years if certain cash flow milestones are achieved. The purchase was fully financed by a combination of \$4.9 million of senior secured debt from Square 1 Bank under a four-year term loan and \$10 million of subordinated secured debt from Pequot Ventures, the private equity arm of Pequot Capital Management, Inc. Approximately \$7.4 million of the Pequot debt is convertible into common stock of Irvine Sensors at the rate of \$2.60 per share, with the balance potentially convertible at the same rate, subject to stockholder approval. In connection with the Pequot financing, the Company granted warrants to purchase approximately 1,346,000 shares of Irvine Sensors common stock at an exercise price of \$3.10 per share, of which approximately 344,000 shares are subject to stockholder approval. Irvine Sensors also received a \$2 million revolving line-of-credit from Square 1 Bank to address its working capital requirements subsequent to the Optex acquisition. Square 1 Bank is a commercial bank providing specialized financial services to venture capital firms and the companies in which they invest, and Pequot Capital Management is a diversified investment firm with more than \$7 billion of funds under management worldwide.

Subject to stockholder approval, the Company will acquire the remaining 30% of Optex's stock in exchange for the issuance of 2,692,308 shares of Irvine Sensors' common stock. The authority for this subsequent transaction, the conversion of the remaining portion of the Pequot debt and the issuance of shares pursuant to contingent warrants will be sought at the Irvine Sensors Annual Meeting of Stockholders presently scheduled for March 7, 2006. If stockholder approval is not obtained, the balance of the Pequot debt of approximately \$2.6 million will remain payable in cash in two years.

Martin Hale, Jr., Managing Director of Pequot Ventures, will be nominated for election to Irvine Sensors' Board of Directors at that March 2006 Annual Meeting. Mr. Hale said, "We believe that Irvine Sensors is precisely the kind of technology-rich company that can be the platform for highly accretive growth, if provided with appropriate financing. That is the role we play, and we are delighted to be a part of this initial transaction toward that goal."

Irvine Sensors Corporation, headquartered in Costa Mesa, California, is primarily engaged in the development and sale of miniaturized infrared and electro-optical cameras, image processors and stacked chip assemblies and research and development related to high density electronics, miniaturized sensors, optical interconnection technology, high speed network security, image processing and low-power analog and mixed-signal integrated circuits for diverse systems applications.

Pequot Ventures is the direct venture investment arm of Pequot Capital Management, Inc. and has a direct investment focus on startup, growth stage and later-stage companies in the technology, defense and healthcare sectors. Pequot's goal is to create value by bringing energy and substantial industry expertise to its portfolio companies through the collective intellectual capital, deep operating experience and extensive network of its investment team. The firm leverages its multi-billion dollar presence across both public and private equity markets to help build competitive, sustainable businesses in fast changing environments throughout their lifecycle. Pequot accomplishes this goal in close partnership with the founders and management teams of its portfolio companies.

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Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: This news release may contain forward-looking statements based on our current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by us. Words such as "anticipates," "expects," "projects", "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations of these words or similar expressions are intended to identify forward-looking statements. These statements include, but are not limited to funding of the existing military procurements supported by Optex Systems, Inc., the expected synergies resulting from the Company's acquisition of Optex and the future performance of the Company. Such statements speak only as of the date hereof and are subject to change. We undertake no obligation to revise or update publicly any forward-looking statements for any reason. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors.

Important factors that may cause such a difference include, but are not limited to, our ability to integrate Irvine Sensors' technology with Optex Systems' products while maintaining production standards required by military customers; the costs of integrating Optex Systems' operations, systems and management team into Irvine Sensors; any unforeseen accounting charges or liabilities resulting from this acquisition; our ability to service the new debt obligations or to raise additional capital and control costs and expenses; the potential unforeseen impact of product offerings from competitors; Optex Systems' ability to maintain and expand its sales and profitability; government funding and budgetary processes and approvals and general economic and political conditions and

specific conditions in the markets we address, particularly as it might effect the status of military systems presently deployed in combat operations. Further information on Irvine Sensors Corporation, including additional risk factors that may affect our forward looking statements, is contained in our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and our other SEC filings that are available through the SEC's website (www.sec.gov).