



NEWS RELEASE

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IRVINE SENSORS' SENIOR AND SUBORDINATED DEBT REFINANCED All defaults cured or waived

FOR IMMEDIATE RELEASE

COSTA MESA, CALIFORNIA -- January 3, 2007 -- Irvine Sensors Corporation (NASDAQ: IRSN, Boston Exchange: ISC) announced today that both its senior bank debt and its subordinated convertible notes have been refinanced, each effective December 29, 2006. The refinancing occurred in two transactions each funded by two institutional investors. In a senior debt transaction, Irvine Sensors borrowed \$8.25 million pursuant to a two-year term loan bearing interest at 11% per annum and requiring interest-only debt service until maturity. As long as Irvine Sensors is current in payments due to the investors under the term loan, the new term loan does not require adherence to financial covenant compliance measurements of the type that triggered the default of Irvine Sensors' senior debt credit facility with Square 1 Bank. A substantial portion of the proceeds of the new term loan was used to retire approximately \$3.9 million of senior term loan debt owed to Square 1 Bank with a maturity date of December 29, 2009 and a \$2 million revolving line-of-credit from Square 1 Bank, which was due on December 29, 2006. The balance of the new term loan proceeds was used for transaction costs and general corporate purposes. As an inducement for issuance of the new senior loan on such terms, the Company issued the investors five-year warrants to purchase an aggregate of 3.0 million shares of Irvine Sensors common stock at an exercise price of \$1.30 per share, the approximate market price of the Company's common stock when the basic economic terms of the transaction were negotiated. The firm of Dominick & Dominick, LLC provided investment banking services for Irvine Sensors in the senior debt refinancing.

In a concurrent transaction, the same investors purchased Irvine Sensor's aggregate \$10 million subordinated convertible Series 1 and Series 2 notes from two investment funds ("Pequot") managed by Pequot Capital Management, Inc. and elected to extend the maturity of the Series 2 notes from December 30, 2007 to December 30, 2009, the same maturity date as the Series 1 notes. Pequot assigned the Series 1 and Series 2 notes to the new investors and the other terms of the subordinated convertible notes were substantially unchanged as a result of the assignment, although the price anti-dilution feature of the notes and related warrants was triggered by the senior debt transaction, resulting in adjustment of the conversion price of the notes to \$1.30 per share and the adjustment of the Pequot warrants' exercise price to \$1.30 per share, along with a corresponding increase in the number of shares issuable upon conversion of the Series 1 and Series 2 Notes and upon exercise of the Pequot warrants.

In connection with the assignment of the notes, Pequot agreed to exercise warrants to purchase approximately 1.3 million shares of Irvine Sensors common stock for aggregate gross proceeds of \$1.75 million, and Irvine Sensors agreed to pay Pequot \$1.25 million in settlement of all existing disputes between Irvine Sensors and Pequot. Asserted defaults under the subordinated convertible notes were cured or permanently waived concurrent with the assignment of the Notes to the investors and the settlement with Pequot.

John Carson, Irvine Sensors CEO said, "Because of the number of entities involved and the scale of the transactions, this was a complex and time-consuming refinancing. We appreciate the patience of our customers, lenders, creditors, stockholders and employees during this process. We will report the substantial intangible effects of the transactions as quickly as we can complete the complex accounting analysis required. In the meantime, though, we are very pleased that the refinancing is behind us and anticipate focusing our resources to business execution and the fulfillment of our significant backlog."

Irvine Sensors Corporation, headquartered in Costa Mesa, California, is a vision systems company engaged in the development and sale of miniaturized infrared and electro-optical cameras, image processors and stacked chip assemblies, the manufacture and sale of optical systems and equipment for military applications through its Optex subsidiary 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.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: This message 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," "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, our expectations regarding our ability to successfully execute our business plan and fulfill our backlog. 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 successfully perform under any government contracts and resolve any technical challenges we may encounter in connection with such contract; the ability of our subcontractors to meet the developmental objectives related to our contracts; reliance on suppliers and working capital constraints that may delay delivery of necessary parts and materials; capacity constraints and manufacturing challenges we may face; the timing and unpredictability of government funding; and the general economic and political conditions and specific conditions in the markets we address. 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).