



NEWS RELEASE

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IRVINE SENSORS FILES 10-K AND RELEASES FISCAL 2006 RESULTS

FOR IMMEDIATE RELEASE

COSTA MESA, CALIFORNIA -- January 31, 2007 -- Irvine Sensors Corporation (NASDAQ: IRSN, Boston Stock Exchange: ISC) today filed its Form 10-K and reported operating results for its fiscal 2006, the 52-week period ended October 1, 2006. Fiscal 2006 included three fiscal quarters of consolidation of Optex Systems, Inc., Irvine Sensors' subsidiary acquired December 30, 2005.

As a result of the Optex consolidation, total revenues in fiscal 2006 increased approximately 34% over fiscal 2005, from \$23 million to \$30.8 million, setting a new fiscal year revenue record for Irvine Sensors. The Optex contribution to total revenues for fiscal 2006 was approximately \$12.8 million. Idle capacity from delays in anticipated research and development contracts and Optex acquisition and integration expenses contributed to an approximate \$8.5 million net loss for fiscal 2006, an increase of approximately \$6.7 million over the net loss of fiscal 2005. Also contributing to the fiscal 2006 net loss were substantial expenses recorded in the fourth fiscal quarter related to the subsequent refinancing of Irvine Sensors' debt in December 2006, including a \$1.25 million settlement fee. The net loss in fiscal 2006 also included the effect of the new requirement to expense stock option compensation, an effect that was not present in fiscal 2005.

The December 2006 refinancing eliminated the default conditions that had caused Irvine Sensors to reclassify its debt as current as of July 2, 2006. Accordingly, the Company's balance sheet at October 1, 2006 reflects long-term classification of its debt, including the \$2 million revolving line of credit that had previously been scheduled for maturity in December 2006, prior to the debt refinancing. Although cash decreased approximately \$0.7 million over the course of fiscal 2006, working capital increased approximately \$0.8 million in the period, largely due to the December 2005 financings consummated in connection with the Optex acquisition.

Irvine Sensors' CEO John Carson and CFO John Stuart will host a web cast conference call to discuss the fiscal 2006 results and the substantial accounting effects of the December 2006 refinancing on Wednesday, February 7, 2007 at 1:15 PM Pacific Time. The call will be broadcast live over the Internet and can be listened to by all interested parties via a link on Irvine Sensors' homepage at www.irvine-sensors.com, which should be accessed at least fifteen minutes prior to the start of the call to register, download, and install any necessary audio software. For those unable to monitor the live broadcast, a

conference call replay will be available shortly after the conclusion of the call, and remain archived on the Irvine Sensors site through Friday, February 23, 2007.

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.

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IRVINE SENSORS CORPORATION
CONSOLIDATED BALANCE SHEETS

	October 1, 2006	October 2, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 582,800	\$ 1,309,600
Restricted cash	42,800	41,200
Accounts receivable, net of allowance for doubtful accounts of \$131,000 and \$70,000, respectively	4,102,100	1,190,000
Unbilled revenues on uncompleted contracts	1,908,500	1,968,800
Inventory, net	6,735,100	1,164,300
Other current assets	120,900	82,500
Total current assets	13,492,200	5,756,400
Property and equipment, net	5,537,900	4,415,400
Intangible assets, net	2,948,800	1,390,300
Goodwill	9,103,600	-
Deferred costs	295,500	9,300
Deposits	117,800	81,800
Total assets	\$ 31,495,800	\$ 11,653,200
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,269,700	\$ 1,746,000
Accrued expenses	1,806,000	1,049,700
Success fee payable to related party	500,000	-
Accrued estimated loss on contracts	68,300	26,200
Advance billings on uncompleted contracts	181,600	97,700
Deferred revenue	144,100	-
Settlement fee payable	1,250,000	-
Income taxes payable	205,800	-
Net deferred tax liabilities	485,800	-
Capital lease obligations – current portion	70,000	148,500
Total current liabilities	9,981,300	3,068,100
Notes payable – convertible and term, net of discounts	15,030,400	-
Capital lease obligations, less current portion	49,100	81,000
Minority interest in consolidated subsidiaries	2,105,100	409,900
Total liabilities	27,165,900	3,559,000
Stockholders' equity:		
Common stock, \$0.01 par value, 80,000,000 shares authorized; 19,965,900 and 18,669,700 shares issued and outstanding,	199,700	186,700
Common stock warrants; 2,227,100 and 1,233,900 warrants outstanding, respectively	-	-
Common stock held by Rabbi Trust	(939,000)	(702,000)
Deferred compensation liability	939,000	702,000
Paid-in capital	124,535,800	119,831,100
Accumulated deficit	(120,405,600)	(111,923,600)
Total stockholders' equity	4,329,900	8,094,200
	\$ 31,495,800	\$ 11,653,200

IRVINE SENSORS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended	
	October 1, 2006	October 2, 2005
Revenues:		
Contract research and development revenue	\$ 16,503,700	\$ 20,664,300
Product sales	14,263,200	2,287,700
Other revenue	58,800	97,000
Total revenues	<u>30,825,700</u>	<u>23,049,000</u>
Cost and expenses:		
Cost of contract research and development revenue	13,588,500	15,310,100
Cost of product sales	12,830,800	1,944,100
General and administrative expense	9,737,000	6,447,000
Research and development expense	353,700	829,500
Total costs and expenses	<u>36,510,000</u>	<u>24,530,700</u>
Loss from operations	(5,684,300)	(1,481,700)
Interest expense	(1,226,000)	(43,000)
Settlement fee on debt default	(1,250,000)	-
Other expense	(317,800)	(94,800)
Gain (loss) on disposal and impairment of assets	1,100	(5,800)
Interest and other income	26,400	13,100
Loss from continuing operations before minority interest and provision for income taxes	(8,450,600)	(1,612,200)
Minority interest in loss of subsidiaries	2,700	9,100
Provision for income taxes	(34,100)	(16,100)
Loss from continuing operations	(8,482,000)	(1,619,200)
Discontinued operations:		
Loss from operations of discontinued subsidiary	-	(55,400)
Loss on abandonment of assets	-	(121,900)
Loss from discontinued operations	-	(177,300)
Net loss	<u>\$ (8,482,000)</u>	<u>\$ (1,796,500)</u>
Basic and diluted net loss per share information:		
From continuing operations	\$ (0.43)	\$ (0.09)
From discontinued operations	(0.00)	(0.01)
Basic and diluted net loss per common share	<u>\$ (0.43)</u>	<u>\$ (0.10)</u>
Weighted average number of shares outstanding	<u>19,595,800</u>	<u>18,392,500</u>