



NEWS RELEASE

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IRVINE SENSORS RELEASES FY08 RESULTS

FOR IMMEDIATE RELEASE

COSTA MESA, CALIFORNIA -- January 12, 2009 -- Irvine Sensors Corporation (NASDAQ: IRSN) today reported operating results for fiscal 2008, the 52 weeks ended September 28, 2008. Optex Sytems, Inc. ("Optex"), Irvine Sensors' wholly owned subsidiary, has discontinued operations as a result of the October 2008 UCC sale of its assets and is classified as such in Irvine Sensors' results for fiscal 2008, fiscal 2007 and fiscal 2006.

Reflecting the exclusion of Optex's revenues, total revenues for fiscal 2008 were \$16,677,000 compared to total revenues of \$20,378,400 for fiscal 2007, an approximate 18% decrease. Despite this decrease, loss from continuing operations declined over 26% to \$12,800,000 in fiscal 2008, from \$17,442,400 in the prior fiscal year. The loss from discontinued operations, on the other hand, increased in fiscal 2008 to \$8,758,900 as compared to \$4,688,700 in fiscal 2007, largely due to the \$7.6 million loss on disposal of discontinued operations recorded in fiscal 2008 as a result of the Optex Asset Sale. The combination of a lower loss from continuing operations and a higher loss from discontinued operations in fiscal 2008 produced a net loss of \$21,558,900, nearly equivalent to the \$22,131,000 net loss in fiscal 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 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 STATEMENTS OF OPERATIONS

	Fiscal Year Ended		
	September 28, 2008	September 30, 2007	October 1, 2006
Revenues:			
Contract research and development revenue	\$ 14,157,900	\$ 17,137,700	\$ 16,503,700
Product sales	2,489,100	3,210,900	1,510,300
Other revenue	30,000	29,800	58,800
Total revenues	<u>16,677,000</u>	<u>20,378,400</u>	<u>18,072,800</u>
Cost and expenses:			
Cost of contract research and development revenue	11,339,000	13,550,100	13,588,500
Cost of product sales	1,885,600	2,490,300	1,468,900
General and administrative expense	8,932,400	9,208,800	8,169,200
Research and development expense	1,512,500	1,119,800	353,700
Total costs and expenses	<u>23,669,500</u>	<u>26,369,000</u>	<u>23,580,300</u>
Loss from operations	(6,992,500)	(5,990,600)	(5,507,500)
Interest expense	(6,100,200)	(7,026,800)	(1,227,700)
Loss on extinguishment of debt	-	(4,398,000)	-
Settlement fee on debt default	-	-	(1,250,000)
Change in fair value of derivative instrument	-	-	(317,800)
Gain on disposal of assets	315,600	4,700	1,100
Interest and other income	2,400	6,300	3,800
Loss from continuing operations before minority interest and provision for income taxes	(12,774,700)	(17,404,400)	(8,298,100)
Minority interest in loss of subsidiaries	200	500	300
Provision for income taxes	(25,500)	(38,500)	(36,300)
Loss from continuing operations	(12,800,000)	(17,442,400)	(8,334,100)
Discontinued operations:			
Loss from operations of discontinued operations	(1,158,900)	(4,688,700)	(16,600)
Loss on disposal of discontinued operations	(7,600,000)	-	-
Loss from discontinued operations	<u>(8,758,900)</u>	<u>(4,688,700)</u>	<u>(16,600)</u>
Net loss	<u><u>\$(21,558,900)</u></u>	<u><u>\$(22,131,100)</u></u>	<u><u>\$ (8,350,700)</u></u>
Basic and diluted net loss per common share information:			
From continuing operations	\$ (4.35)	\$ (7.16)	\$ (4.25)
From discontinued operations	(2.94)	(1.92)	(0.01)
Basic and diluted net loss per common share	<u><u>\$ (7.29)</u></u>	<u><u>\$ (9.08)</u></u>	<u><u>\$ (4.26)</u></u>
Weighted average number of common shares outstanding	<u>2,980,100</u>	<u>2,436,400</u>	<u>1,959,600</u>

IRVINE SENSORS CORPORATION
CONSOLIDATED BALANCE SHEETS

	September 28, 2008	September 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 638,600	\$ 937,600
Restricted cash	41,700	39,600
Accounts receivable, net of allowance for doubtful accounts of \$15,000 and \$15,000, respectively	662,400	1,571,000
Unbilled revenues on uncompleted contracts, net of allowance of \$18,400 and \$0, respectively	1,279,700	1,289,300
Inventory, net	1,126,900	898,900
Prepaid expenses and other current assets	64,800	57,000
Current assets of discontinued operations	7,494,700	8,678,000
Total current assets	11,308,800	13,471,400
Property and equipment, net	4,328,300	5,405,000
Intangible assets, net	1,005,500	1,183,900
Deferred costs	260,100	587,200
Deposits	101,000	65,800
Non-current assets of discontinued operations	5,880,300	13,717,100
Total assets	\$ 22,884,000	\$ 34,430,400
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 4,047,100	\$ 2,514,200
Accrued expenses	4,595,200	2,321,500
Success fee payable to related party	-	500,000
Accrued estimated loss on contracts	144,500	200,100
Advance billings on uncompleted contracts	21,900	378,100
Deferred revenue	385,000	156,500
Income taxes payable	14,400	31,400
Restructured debt, net of discounts	11,788,800	-
Promissory note payable – related party	400,000	400,000
Subordinated term loan – related party	2,000,000	-
Capital lease obligations – current portion	29,100	40,300
Current liabilities of discontinued operations	4,009,600	5,043,100
Total current liabilities	27,435,600	11,585,200
Restructured debt, net of discounts	-	10,869,300
Subordinated term loan – related party	-	2,000,000
Deferred interest	-	1,241,200
Executive Salary Continuation Plan liability	3,484,800	3,800,500
Capital lease obligations, less current portion	11,200	45,000
Minority interest in consolidated subsidiaries	411,600	411,900
Total liabilities	31,343,200	29,953,100
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$0.01 par value, 1,000,000 and 500,000 shares authorized, respectively; 126,000 and 0 shares issued and outstanding, respectively	1,300	-
Common stock, \$0.01 par value, 150,000,000 and 80,000,000 shares authorized, respectively; 3,557,200 and 2,684,300 shares issued and outstanding, respectively	35,600	26,800
Common stock warrants; 717,900 and 614,500 warrants outstanding, respectively	-	-
Deferred stock-based compensation	(183,200)	(299,700)
Common stock held by Rabbi Trust	(1,214,100)	(1,115,100)
Deferred compensation liability	1,214,100	1,115,100
Paid-in capital	159,901,000	151,405,200
Accumulated deficit	(168,213,900)	(146,655,000)
Total stockholders' (deficit) equity	(8,459,200)	4,477,300
	\$ 22,884,000	\$ 34,430,400