



## **IRVINE SENSORS CORPORATION NEWS RELEASE**

**CONTACT:** Investor Relations  
Irvine Sensors Corporation  
714-444-8718  
[investorrelations@irvine-sensors.com](mailto:investorrelations@irvine-sensors.com)

**FOR IMMEDIATE RELEASE**

### **IRVINE SENSORS RELEASES MID-FISCAL 2006 RESULTS**

COSTA MESA, CALIFORNIA -- May 22, 2006 -- Irvine Sensors Corporation (NASDAQ: IRSN, Boston Stock Exchange: ISC) today reported operating results for its second quarter and first half of fiscal 2006, the 13 and 26 weeks ended April 2, 2006. The 13-week period was the first in which operating results of Optex Systems, Inc., Irvine Sensors' recently acquired subsidiary, were consolidated.

As a result of the Optex consolidation, total revenues were up in both the 13-week and 26-week periods measured against the comparable periods of last year. The Optex contribution to total revenues for the 13-week period ended April 2, 2006 was approximately \$4.3 million. Total revenues for the 13 weeks ended April 2, 2006 were \$7,857,500, up 29% from \$6,070,500 in the 13-week period ended April 3, 2005. Total revenues in the current 26-week period were \$12,638,500, up 24% from \$10,203,800 at the mid-year point of fiscal 2005, eclipsing the record for the first half of any fiscal year in Irvine Sensors' history that had been set last year.

Largely as a result of the effects of delays in anticipated research and development contracts and integration and imputed expenses of the Optex acquisition, net loss for the current year 13 and 26-week periods increased over the comparable periods of last year. Net loss for the current quarter was \$2,458,300 as compared to \$134,000 for the fiscal 2005 second quarter. Net loss for the 26 weeks ended April 2, 2006 was \$3,583,400, up from \$1,310,100 for the 26 weeks ended April 3, 2005. The net losses in the fiscal 2006 periods also included the effect of the new requirement to expense stock option compensation, an effect that was not present in fiscal 2005.

As previously announced, Irvine Sensors' CEO John Carson and CFO John Stuart will host a web cast conference call to discuss the fiscal 2006 first half results and the finalized accounting treatment of the Optex acquisition today, Monday, May 22, 2005 at 9:00 AM 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](http://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, June 2, 2006.

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.

--00--

**IRVINE SENSORS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	April 2, 2006	October 2, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,035,600	\$ 1,309,600
Restricted cash	48,300	41,200
Accounts receivable, net of allowance for doubtful accounts of \$131,000 and \$70,000, respectively	3,505,300	1,190,000
Unbilled revenues on uncompleted contracts	1,108,200	1,968,800
Inventory, net	6,955,000	1,164,300
Other current assets	155,400	82,500
Total current assets	13,807,800	5,756,400
Property and equipment, net	5,030,500	4,415,400
Intangible assets, net	3,352,000	1,390,300
Goodwill	8,843,200	-
Deferred costs	297,400	9,300
Deposits	117,800	81,800
Total assets	\$ 31,448,700	\$ 11,653,200
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 3,360,000	\$ 1,746,000
Accrued expenses	2,249,800	1,049,700
Accrued estimated loss on contracts	44,800	26,200
Advance billings on uncompleted contracts	132,200	97,700
Deferred revenue	16,500	-
Line of credit	2,000,000	-
Current portion of bank note payable	1,225,000	-
Capital lease obligations – current portion	115,200	148,500
Total current liabilities	9,143,500	3,068,100
Notes payable – convertible and bank	12,593,600	-
Capital lease obligations, less current portion	82,600	81,000
Minority interest in consolidated subsidiaries	2,122,300	409,900
Total liabilities	23,942,000	3,559,000
Stockholders' equity:		
Common stock, \$0.01 par value, 80,000,000 shares authorized; 19,675,500 and 18,669,700 shares issued and outstanding, respectively	196,800	186,700
Common stock warrants; 2,022,300 and 1,233,900 warrants outstanding, respectively	-	-
Unamortized employee stock bonus plan contribution	(679,400)	-
Unamortized deferred compensation	(118,500)	-
Common stock held by Rabbi Trust	(939,000)	(702,000)
Deferred compensation liability	939,000	702,000
Paid-in capital	123,614,800	119,831,100
Accumulated deficit	(115,507,000)	(111,923,600)
Total stockholders' equity	7,506,700	8,094,200
	\$ 31,448,700	\$ 11,653,200

**IRVINE SENSORS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	13 Weeks Ended		26 Weeks Ended	
	April 2, 2006	April 3, 2005	April 2, 2006	April 3, 2005
<b>Revenues:</b>				
Contract research and development revenue	\$ 3,316,900	\$ 5,324,400	\$ 7,573,600	\$ 8,949,800
Product sales	4,518,900	743,100	5,027,600	1,211,700
Other revenue	21,700	3,000	37,300	42,300
Total revenues	7,857,500	6,070,500	12,638,500	10,203,800
<b>Cost and expenses:</b>				
Cost of contract research and development revenue	3,042,200	3,962,700	6,413,200	6,778,700
Cost of product sales	3,736,300	546,600	4,118,500	1,035,000
General and administrative expense	2,672,000	1,478,200	4,741,600	3,148,200
Research and development expense	78,400	194,200	147,800	514,600
Total costs and expenses	9,528,900	6,181,700	15,421,100	11,476,500
<b>Loss from operations</b>	(1,671,400)	(111,200)	(2,782,600)	(1,272,700)
Interest expense	(443,100)	(9,700)	(451,400)	(19,100)
Change in fair value of derivative instrument	(317,800)	-	(317,800)	-
Loss on disposal of assets	-	(6,300)	-	(6,300)
Interest and other income	200	5,300	1,800	8,800
Loss from continuing operations before minority interest and provision for income taxes	(2,432,100)	(121,900)	(3,550,000)	(1,289,300)
Minority interest in (profit) loss of subsidiaries	(14,800)	800	(14,500)	1,000
Provision for income taxes	(11,400)	(2,900)	(17,500)	(9,800)
Loss from continuing operations	(2,458,300)	(124,000)	(3,582,000)	(1,298,100)
Loss from operations of discontinued subsidiary	-	(10,000)	(1,400)	(12,000)
<b>Net loss</b>	\$(2,458,300)	\$ (134,000)	\$(3,583,400)	\$ (1,310,100)
Basic and diluted net loss per common share information:				
From continuing operations	\$ (0.13)	\$ (0.01)	\$ (0.19)	\$ (0.07)
From operations of discontinued subsidiary	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Basic and diluted net loss per common share	\$ (0.13)	\$ (0.01)	\$ (0.19)	\$ (0.07)
Weighted average number of common shares outstanding	19,474,700	18,431,900	19,355,700	18,222,900