



## NEWS RELEASE

**CONTACT:** Investor Relations  
Irvine Sensors Corporation  
714-444-8718  
investorrelations@irvine-sensors.com

### IRVINE SENSORS RELEASES 3<sup>rd</sup> QUARTER RESULTS

FOR IMMEDIATE RELEASE

COSTA MESA, CALIFORNIA -- August 21, 2006 -- Irvine Sensors Corporation (NASDAQ: IRSN, Boston Stock Exchange: ISC) today reported operating results for its third quarter and first three quarters of fiscal 2006, the 13-week and 39-week periods ended July 2, 2006. The 39-week period included 26 weeks of consolidation of Optex Systems, Inc., Irvine Sensors' subsidiary acquired December 30, 2005.

As a result of the Optex consolidation, total revenues were up in both the 13-week and 39-week periods measured against the comparable periods of last year. The Optex contribution to total revenues for the 13-week and 39 week periods ended July 2, 2006 was approximately \$4.2 million and \$8.6 million, respectively. Total revenues for the 13 weeks ended July 2, 2006 were \$8,697,000, up 40% from \$6,198,800 in the 13-week period ended July 3, 2005. Total revenues in the current year's first three quarters were \$21,335,500, up 30% from \$16,402,600 through the comparable period of fiscal 2005, setting a new 39-week revenue record for Irvine Sensors.

Idle capacity losses from delays in anticipated research and development contracts and Optex acquisition and integration expenses continued to contribute to increases in net loss for the current year 13-week and 39-week periods over the comparable periods of last year, but at diminished levels from the immediately preceding quarterly period. Net loss for the current quarter was \$1,572,600 as compared to \$58,800 for the fiscal 2005 third quarter. Net loss for the 39 weeks ended July 2, 2006 was \$5,156,000, up from \$1,368,900 for the 39 weeks ended July 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.

Irvine Sensors was not in compliance with its senior bank term loan and revolving line of credit loan covenants at July 2, 2006, primarily due to the net loss for the 13-week period then ended. The bank has not accelerated the Company's obligations, but has requested Irvine Sensors raise additional capital to cure the default by August 31, 2006. Non-compliance with the bank debt covenant also triggered a cross-default under the Company's senior subordinated secured convertible notes. The holders of those notes also have not accelerated the Company's obligations. The Company is seeking to raise additional capital and is in continuing discussions with its lenders. Management believes that the Company will be able to obtain the financing required by its senior bank and to meet the liquidity requirements of the Company's operating plan

for at least the next twelve months. However, the Company cannot guarantee that additional financing will be available on a timely basis, on acceptable terms or at all. Pending resolution of this matter, the Company has reclassified the full principal balances of its term loan and subordinated convertible debt, net of discounts, as current obligations as of July 2, 2006.

Irvine Sensors' CEO John Carson and CFO John Stuart will host a web cast conference call to discuss the fiscal 2006 39-week results on Tuesday, August 22, 2006 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](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 Tuesday, September 5, 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.

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

	July 2, 2006	October 2, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 743,300	\$ 1,309,600
Restricted cash	39,900	41,200
Accounts receivable, net of allowance for doubtful accounts of \$131,000 and \$70,000, respectively	3,797,500	1,190,000
Unbilled revenues on uncompleted contracts	1,651,600	1,968,800
Inventory, net	7,749,800	1,164,300
Other current assets	134,100	82,500
Total current assets	14,116,200	5,756,400
Property and equipment, net	4,805,200	4,415,400
Intangible assets, net	3,687,500	1,390,300
Goodwill	8,427,300	-
Deferred costs	273,100	9,300
Deposits	117,800	81,800
Total assets	\$ 31,427,100	\$ 11,653,200
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,139,600	\$ 1,746,000
Accrued expenses	2,230,800	1,049,700
Accrued estimated loss on contracts	101,500	26,200
Advance billings on uncompleted contracts	189,000	97,700
Line of credit	2,000,000	-
Notes payable – convertible and bank, net of discounts	13,235,200	-
Capital lease obligations – current portion	95,600	148,500
Total current liabilities	21,991,700	3,068,100
Capital lease obligations, less current portion	64,900	81,000
Minority interest in consolidated subsidiaries	2,252,300	409,900
Total liabilities	24,308,900	3,559,000
Stockholders' equity:		
Common stock, \$0.01 par value, 80,000,000 shares authorized; 19,953,600 and 18,669,700 shares issued and outstanding, respectively	199,500	186,700
Common stock warrants; 2,227,600 and 1,233,900 warrants outstanding, respectively	-	-
Unamortized employee stock bonus plan contribution	(426,900)	-
Unamortized deferred compensation	(94,100)	-
Common stock held by Rabbi Trust	(939,000)	(702,000)
Deferred compensation liability	939,000	702,000
Paid-in capital	124,519,300	119,831,100
Accumulated deficit	(117,079,600)	(111,923,600)
Total stockholders' equity	7,118,200	8,094,200
	\$ 31,427,100	\$ 11,653,200

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

	13 Weeks Ended		39 Weeks Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
<b>Revenues:</b>				
Contract research and development revenue	\$ 4,095,000	\$ 5,598,900	\$ 11,668,600	\$ 14,548,700
Product sales	4,599,100	568,900	9,626,700	1,780,600
Other revenue	2,900	31,000	40,200	73,300
Total revenues	<u>8,697,000</u>	<u>6,198,800</u>	<u>21,335,500</u>	<u>16,402,600</u>
<b>Cost and expenses:</b>				
Cost of contract research and development revenue	3,071,700	4,078,400	9,484,900	10,857,100
Cost of product sales	4,112,900	488,400	8,231,400	1,523,400
General and administrative expense	2,422,800	1,515,400	7,164,400	4,663,600
Research and development expense	174,300	151,500	322,100	666,100
Total costs and expenses	<u>9,781,700</u>	<u>6,233,700</u>	<u>25,202,800</u>	<u>17,710,200</u>
<b>Loss from operations</b>	<u>(1,084,700)</u>	<u>(34,900)</u>	<u>(3,867,300)</u>	<u>(1,307,600)</u>
Interest expense	(349,800)	(11,400)	(801,200)	(30,500)
Change in fair value of derivative instrument	-	-	(317,800)	-
Gain (loss) on disposal of assets	1,100	2,300	1,100	(4,000)
Interest and other income	500	200	2,300	9,000
Loss from continuing operations before minority interest and provision for income taxes	(1,432,900)	(43,800)	(4,982,900)	(1,333,100)
Minority interest in (profit) loss of subsidiaries	(130,000)	600	(144,500)	1,600
Provision for income taxes	(9,700)	(3,600)	(27,200)	(13,400)
Loss from continuing operations	(1,572,600)	(46,800)	(5,154,600)	(1,344,900)
Loss from operations of discontinued subsidiary	-	(12,000)	(1,400)	(24,000)
<b>Net loss</b>	<u>\$ (1,572,600)</u>	<u>\$ (58,800)</u>	<u>\$ (5,156,000)</u>	<u>\$ (1,368,900)</u>
Basic and diluted net loss per common share information:				
From continuing operations	\$ (0.08)	\$ (0.00)	\$ (0.26)	\$ (0.07)
From operations of discontinued subsidiary	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Basic and diluted net loss per common share	<u>\$ (0.08)</u>	<u>\$ (0.00)</u>	<u>\$ (0.26)</u>	<u>\$ (0.07)</u>
Weighted average number of common shares outstanding	<u>19,695,500</u>	<u>18,514,100</u>	<u>19,482,300</u>	<u>18,325,500</u>