IRIDEX CORP
Form 424B5
September 14, 2018
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-213094

PROSPECTUS SUPPLEMENT

(to Prospectus dated August 26, 2016)

1,666,667 Shares

Common Stock

IRIDEX Corporation is offering 1,666,667 shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

Our common stock is listed on The Nasdaq Global Market under the symbol IRIX. On September 13, 2018, the last reported sale price of our common stock on The Nasdaq Global Market was $7.75 per share.

Investing in our common stock involves a high degree of risk. Please read Risk Factors beginning on page S-6 of this prospectus supplement and page 4 of the accompanying prospectus, as well as the documents incorporated by reference in this prospectus supplement.

	Per Share	Total
Public offering price	$ 6.00	$ 10,000,002
Underwriting discounts and commissions(1)	$ 0.36	$ 600,000
Proceeds to IRIDEX, before expenses	$ 5.64	$ 9,400,002

(1) In addition, we have agreed to reimburse the underwriters for certain expenses. See Underwriting on page S-37 of this prospectus supplement for additional information.

We have granted the underwriters an option exercisable one or more times at any time or from time to time, in whole or in part, for a period of 30 days from the date of this prospectus supplement to purchase up to an additional 250,000 shares of our common stock, less underwriting discounts and commissions, solely to cover overallotments, if any.

Delivery of the common stock is expected to be made on or about September 18, 2018.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Sole Bookrunning Manager

Stifel

Lead Manager

Roth Capital Partners

Prospectus Supplement dated September 13, 2018.

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Prospectus Supplement

Accompanying Prospectus

You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and in any free writing prospectus that we have authorized for use in connection with this offering. IRIDEX has not and the underwriters have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The distribution of this prospectus supplement and the offering of the common stock in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this

prospectus supplement must inform themselves about, and observe any restrictions relating to, the offering of the common stock and the distribution of this prospectus supplement outside the United States. This prospectus supplement does not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities

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offered by this prospectus supplement by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering, is accurate only as of the date of those respective documents. Our business, financial condition, results of operations and prospects may have changed since those dates. You should read this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus that we have authorized for use in connection with this offering, in their entirety before making an investment decision. You should also read and consider the information in the documents to which we have referred you in the sections of this prospectus supplement entitled Where You Can Find More Information and Incorporation of Certain Information by Reference.

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About This Prospectus Supplement

This document consists of two parts. The first part is the prospectus supplement, which describes the specific terms of the securities being offered and also adds to and updates information contained in the accompanying prospectus dated August 26, 2016 and the documents incorporated by reference therein. The second part, the accompanying prospectus, including the documents incorporated by reference, provides more general information, some of which may not apply to this offering of securities. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. We urge you to carefully read this prospectus supplement, the accompanying prospectus, and the documents incorporated herein and therein, or any issuer free writing prospectus before buying any of the securities being offered under this prospectus supplement. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or in any document incorporated by reference that was filed with the Securities and Exchange Commission, or SEC, before the date of this prospectus supplement, on the other hand, you should rely on the information in this prospectus supplement. If any statement in one of these documents is inconsistent with a statement in another document having a later date for example, a document incorporated by reference in the accompanying prospectus the statement in the document having the later date modifies or supersedes the earlier statement.

Unless the context requires otherwise, references in this prospectus supplement and the accompanying prospectus to IRIDEX, the company, we, us and our refer to IRIDEX Corporation.

This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 that we filed on August 12, 2016, with the SEC using a shelf registration process with respect to up to $50,000,000 in securities that may be sold by IRIDEX thereunder. The shelf registration statement was declared effective by the SEC on August 26, 2016.

Under the shelf registration process, we may offer and sell any combination of securities described in the accompanying prospectus in one or more offerings. The accompanying prospectus provides you with a general description of the securities we may offer. The purpose of this prospectus supplement is to provide supplemental information regarding us in connection with this offering of common stock.

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Prospectus Supplement Summary

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all the information you should consider before investing in our common stock. You should read and consider carefully the more detailed information in this prospectus supplement and the accompanying prospectus, including the factors described under the heading Risk Factors in this prospectus supplement and the financial and other information incorporated by reference in this prospectus supplement and the accompanying prospectus, as well as the information included in any free writing prospectus that we have authorized for use in connection with this offering, before making a decision to invest in our common stock, including our Annual Report on Form 10-K filed for the year ended December 30, 2017 on March 14, 2018 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018 filed on May 8, 2018 and August 8, 2018, respectively. Unless otherwise stated, all information in this summary is as of June 30, 2018.

Company Overview

IRIDEX Corporation is a leading worldwide provider of therapeutic-based laser consoles, delivery devices and consumable instrumentation used to treat sight-threatening eye diseases in ophthalmology. Certain of our products are powered by our differentiated MicroPulse technology, which is a method of delivering laser energy using a mode which chops the continuous wave laser beam into short, microsecond-long laser pulses. Our products are sold in the United States predominantly through a direct sales force and internationally through independent distributors.

Our products consist of laser consoles, delivery devices and consumable instrumentation, including laser probes, and are used in the treatment of serious eye diseases, including glaucoma and retinal diseases. Our laser consoles consist of the following product lines:

Glaucoma This product line includes our Cyclo G6 laser system used for the treatment of glaucoma;

Medical Retina Our medical retina product line includes our IQ 532 and IQ 577 laser photocoagulation systems, which are used for the treatment of diabetic macular edema and other retinal diseases; and

Surgical Retina Our surgical retina line of products includes our OcuLight TX, OcuLight SL, OcuLight SLx, OcuLight GL and OcuLight GLx laser photocoagulation systems. These systems are often used in vitrectomy procedures, which can be used to treat retinal diseases such as proliferative diabetic retinopathy, macular holes, retinal tears and retinal detachments.

Our business generates recurring revenues through sales of consumable products, predominantly single-use laser probe devices and other instrumentation, as well as repair, servicing and extended service contracts for our laser systems. Our laser probes consist of the following product lines:

Glaucoma Probes used in our glaucoma product line include our patented MicroPulse P3 (MP3) probe and G-Probe; and

Surgical Retina Our surgical retina probes include our EndoProbe family of products used in vitrectomy procedures.

Ophthalmologists typically use our laser systems in hospital operating rooms (ORs) and ambulatory surgical centers (ASCs), as well as their offices and clinics. In the ORs and ASCs, ophthalmologists use our laser systems with either an indirect laser ophthalmoscope or a consumable, single use MP3 probe, G-Probe or EndoProbe.

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Market Opportunity

The Company estimates that:

- there are 100 million people worldwide with diabetes-related eye disease;
- the G6 has a target installed base opportunity of 5,000 systems in the United States and approximately the same number outside the United States for a total global installed based opportunity of 10,000 systems;
- there are 5 million patients globally using multiple eye drop medications for the treatment of glaucoma;
- there is an opportunity to treat glaucoma patients 4-6 times with G6 probes during their lifetime; and
- the G6 probe target market opportunity is over $1 billion.

Clinical Study Data

The following clinical results were observed in a study called Long-term Efficacy of Micropulse Diode Transscleral Cyclophotocoagulation in the Treatment of Refractory Glaucoma by investigators at the National University Health System, or NUHS, which involved data from 14 patients treated using the MP3 probe over 78 months:

- 39% mean intraocular pressure reduction from 43.3 to 24.8 millimeters of Mercury, or mmHg;
- reduction in eyedrops from a mean of 1.8 to 1.1; and
- average number of treatments was 3.6.

Corporate Information

IRIDEX Corporation was incorporated in California in February 1989 as IRIS Medical Instruments, Inc. In January 1996, we changed our name to IRIDEX Corporation and reincorporated in Delaware. Our executive offices are located at 1212 Terra Bella Avenue, Mountain View, California 94043-1824, and our telephone number is (650) 940-4700. We can also be reached at our website at www.IRIDEX.com. Any information on, or that can be accessed through, our website and social media channels is not part of this prospectus.

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The Offering

Common stock offered by us	1,666,667 shares
Common stock to be outstanding after this offering	13,330,505 shares (excluding any shares of our common stock that may be acquired by the underwriters upon exercise of their overallotment option)
Underwriters option to purchase additional shares of common stock from us	We have granted the underwriters the option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to 250,000 additional shares of our common stock at the public offering price, less underwriting discounts and commissions
Use of proceeds	We expect to use the net proceeds from this offering for working capital and other general corporate purposes. We may also use a portion of the net proceeds for licensing or acquiring intellectual property or technologies to incorporate in our products, capital expenditures, to fund possible investments in and acquisitions of complementary businesses, partnerships, minority investments or to repay indebtedness. See Use of Proceeds.
Nasdaq Global Market Listing	Our common stock is listed on The Nasdaq Global Market under the symbol IRIX.
Risk factors	Investing in our securities involves a high degree of risk. See Risk Factors beginning on page S-6 of this prospectus supplement and beginning on page 24 of our Quarterly Report on Form 10-Q for the period ended June 30, 2018, which Quarterly Report is incorporated herein by reference into this prospectus supplement and accompanying prospectus.
Transfer agent and registrar	Computershare Trust Company, N.A.

The number of shares of common stock to be outstanding immediately after this offering is based on 11,663,838 shares outstanding as of June 30, 2018 and excludes as of this date:

- 890,323 shares of common stock issuable upon the exercise of options outstanding at a weighted average exercise price of $9.17 per share;

328,771 outstanding restricted stock units (RSUs); and

1,085,708 shares of common stock available for future issuance under our Amended and Restated 2008 Equity Incentive Plan.

Except as otherwise indicated, all information in this prospectus assumes no exercise by the underwriters of their overallotment option and assumes no exercise of outstanding stock options or vesting of RSUs subsequent to June 30, 2018.

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Summary Financial Data

The table below presents financial data for the periods indicated. The summary consolidated statements of operations data for the years ended December 30, 2017, December 31, 2016 and January 2, 2016 are derived from our audited financial statements and related notes for those periods that are incorporated by reference in this prospectus supplement and accompanying prospectus. The summary unaudited consolidated statements of operations data for the six months ended June 30, 2018 and July 1, 2017 and the unaudited consolidated balance sheet data as of June 30, 2018 are derived from our unaudited interim condensed consolidated financial statements incorporated by reference into this prospectus supplement and accompanying prospectus. In the opinion of management, such unaudited interim financial data contains all adjustments necessary for the fair statement of our financial position and results of operations as of and for such periods. Historical results are not necessarily indicative of results that may be expected or attained for future periods, and our results for any interim periods are not necessarily indicative of the results to be expected for a full fiscal year.

The following information is only a summary. You should read this data in conjunction with our historical financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report filed on Form 10-K, Quarterly Reports filed on Form 10-Q and other information on file with the SEC that is incorporated by reference in this prospectus supplement and the accompanying prospectus. For more details on how you can obtain our SEC reports and other information, you should read the section of this prospectus supplement entitled Where You Can Find More Information.

Consolidated Statements of Operations Data:

	Fiscal Year Ended			Six Months Ended	
	December 30, 2017	December 31, 2016	January 2, 2016	June 30, 2018	July 1, 2017
				(Unaudited)	
	(in thousands, except share and per share data)				
Total revenues	$ 41,593	$ 46,158	$ 41,757	$ 19,813	$ 20,485
Cost of revenues	26,090	25,319	21,804	11,623	11,525
Gross profit	15,503	20,839	19,953	8,190	8,960
Operating expenses:					
Research and development	5,730	5,365	5,214	2,005	2,708
Sales and marketing	14,541	10,281	8,901	8,218	6,577
General and administrative	8,260	7,638	5,550	4,866	4,274
Gain on sale of intellectual property	(175)				
Impairment of long-lived assets	35	120			
Total operating expenses	28,391	23,404	19,665	15,089	13,559
Loss (income) from operations	(12,888)	(2,565)	288	(6,899)	(4,599)
Other (expense) income, net	(107)	(91)	3	24	(3)
(Loss) income from operations before (benefit from) provision for income tax	(12,995)	(2,656)	291	(6,875)	(4,602)

(Benefit from) provision for income taxes	(128)	9,057	(183)	8	14
Net (loss) income	$ (12,867)	$ (11,713)	$ 474	$ (6,883)	$ (4,616)
Net (loss) income per share:					
Basic	$ (1.11)	$ (1.15)	$ 0.05	$ (0.59)	$ 0.40
Diluted	$ (1.11)	$ (1.15)	$ 0.05	$ (0.59)	$ 0.40
Weighted average shares used in computing net (loss) income per common share:					
Basic	11,555	10,173	9,962	11,636	11,532
Diluted	11,555	10,173	10,128	11,636	11,532

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Consolidated Balance Sheet Data:

	December 30, 2017	As of December 31, 2016	June 30, 2018 (Unaudited)
		(in thousands)	
Cash and cash equivalents	$ 21,707	23,747	$ 16,045
Total assets	41,646	48,144	35,143
Deferred revenue	2,520	1,383	2,316
Total liabilities	11,124	8,984	10,710
Total stockholders equity	30,522	39,160	24,433

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Risk Factors

An investment in our common stock involves a high degree of risk. Prior to making a decision about investing in our common stock, you should carefully consider the specific factors discussed below, the risk factors beginning on page 4 of the accompanying prospectus, as well as the risk factors discussed under the section entitled Risk Factors contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended (the Exchange Act), each of which is incorporated by reference in this prospectus supplement and accompanying prospectus in their entirety, together with all of the other information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference herein and therein, and any related free writing prospectus. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our operations. The occurrence of any of these known or unknown risks might cause you to lose all or part of your investment in the offered common stock.

Risks Relating to our Business

We face quality control and other production issues that could materially and adversely impact our sales and financial results and the acceptance of our products.

The manufacture of our infrared and visible laser consoles and related delivery devices is a highly complex and precise process. We may experience manufacturing difficulties, quality control issues or assembly constraints.

If our sales increase substantially, we may need to increase our production capacity and may not be able to do so in a timely, effective or cost-efficient manner. We may not be able to manufacture sufficient quantities of our products, which may require that we qualify other manufacturers for our products. Furthermore, we may experience delays, disruptions, capacity constraints or quality control problems in our manufacturing operations.

In the past several years, we have experienced supply chain, production and training issues as we have expanded our product lines and sales volumes and may experience similar issues in the future as we continue to grow our business. These issues have caused and may in the future cause us to reduce or delay the shipment of our products and incur costs to service or replace products already shipped to customers. We have also incurred, and may in the future incur, additional costs to rectify or prevent similar issues in the future. Our efforts to address these supply chain, production and training issues may not be successful, and if we are unable to address these issues in a timely and cost-effective manner, product shipments to our customers could be delayed, our sales levels may suffer and manufacturing and operational costs may increase, any of which would negatively impact our business, results of operations and financial condition.

Some of our laser systems are complex in design and may contain defects that are not detected until deployed by our customers, which could increase our costs and reduce our revenues.

Laser systems are inherently complex in design and require regular maintenance. The manufacture of our lasers, laser products and systems involves a highly complex and precise process. As a result of the technical complexity of our products, changes in our or our suppliers manufacturing processes or the inadvertent use of defective materials by us or our suppliers could result in a material adverse effect on our ability to achieve acceptable manufacturing yields and product reliability. To the extent that we do not achieve such yields or product reliability, our business, operating results, financial condition and customer relationships would be adversely affected. We provide warranties on certain of our product sales, and allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires us to make estimates of failure rates and expected costs to repair or replace

the products under warranty. We currently establish warranty reserves based on historical warranty costs. If actual return rates and/or repair and replacement costs differ significantly from our estimates, adjustments to recognize additional cost of revenues may be required in future periods.

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Our customers may discover defects in our products after the products have been fully deployed and operated under peak stress conditions. In addition, some of our products are combined with products from other vendors, which may contain defects. As a result, should problems occur, it may be difficult to identify the source of the problem. If we are unable to identify and fix defects or other problems, we could experience, among other things:

- loss of customers;
- increased costs of product returns and warranty expenses;
- damage to our brand reputation;
- failure to attract new customers or achieve market acceptance;
- diversion of development and engineering resources; and
- legal actions by our customers.

The occurrence of any one or more of the foregoing factors could seriously harm our business, financial condition and results of operations.

We rely on our direct and independent sales forces and network of international distributors to sell our products and any failure to maintain our sales force and distributor relationships could harm our business.

Our ability to sell our products and generate revenues depends upon our direct and independent sales forces within the United States, relationships with independent distributors outside the United States, and the establishment of our direct sales capabilities in Germany. Currently our direct and independent sales forces within the United States consist of approximately 21 employees and one independent representative, respectively. Our international independent distributors are managed by a team of seven people. We generally grant our distributors exclusive territories for the sale of our products in specified countries. The amount and timing of resources dedicated by our distributors to the sales of our products is not within our control. Our international sales are largely dependent on the efforts of these third parties. If any distributor breaches the terms of its distribution agreement with us or fails to generate sales of our products, we may be forced to replace the distributor and our ability to sell our products into that exclusive sales territory would be adversely affected.

We do not have any long-term employment contracts with the members of our direct sales force. We may be unable to replace our direct sales force personnel with individuals of equivalent technical expertise and qualifications, which may harm our revenues and our ability to maintain market share. Similarly, our independent and distributor agreements are generally terminable at will by either party and independents and distributors may terminate their relationships with us, which would affect our sales and results of operations. As we establish our direct sales capabilities in Germany, we may be unable to recruit and retain qualified personnel in this region. Any loss of the members of our existing direct or indirect sales organizations, or any failure to execute on our plans to further develop our sales function, could have an adverse impact on our business, results of operations and financial condition.

Growth in our sales and marketing organization may create operational challenges without immediately offsetting benefits.

We have increased and continue to increase our internal sales and marketing functions. This growth may place a significant strain on our management, operating and financial systems and our sales, marketing, training and administrative resources. As a result of our growth, our operating costs may escalate even faster than planned, and some of our internal systems may need to be enhanced or replaced. For example, if we are unable to provide adequate training for our expanding sales force, our ability to fully utilize new sales and marketing resources may be adversely impacted, we could suffer reputational harm and our ability to maintain our installed base of customers may be negatively impacted. If we cannot effectively manage our expanding operations and our costs, we may not be able to grow effectively or we may grow at a slower pace, and our business could be adversely affected.

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It can take six months or longer before our internal sales representatives are fully trained and productive in selling our solution to prospective clients. This ramp period presents a number of operational challenges as the cost of recruiting, hiring and carrying new sales representatives cannot be offset by the revenue such new sales representatives produce until after they complete their ramp periods. If we cannot reliably develop our sales representatives to a productive level, or if we lose productive representatives in whom we have heavily invested, our future growth rates and revenue will suffer.

We depend on international sales for a significant portion of our operating results.

We derive, and expect to continue to derive, a large portion of our revenues from international sales. For the second quarter of fiscal 2018, our international sales were $5.2 million, or 50.4% of total revenues. We anticipate that international sales will continue to account for a significant portion of our revenues in the foreseeable future. All of our international revenues and costs for the quarter ended June 30, 2018 have been denominated in U.S. dollars except for a sale transacted through our German subsidiary. As a result, an increase in the value of the U.S. dollar relative to foreign currencies makes our U.S. dollar-denominated products more expensive and thus less competitive in foreign markets and may negatively affect our reported revenue in any particular reporting period. Our international operations and sales are subject to a number of risks and potential costs, including:

- fluctuations in foreign currency exchange rates;
- product and production issues;
- performance of our international channel of distributors;
- longer accounts receivable collection periods;
- impact of recessions in global economies and availability of credit;
- political and economic instability;
- trade sanctions and embargoes;
- impact of international conflicts, terrorist and military activity, and civil unrest;
- foreign certification requirements, including continued ability to use the CE mark in Europe, and other local regulatory requirements;

differing local product preferences and product requirements;

cultural differences;

changes in foreign medical reimbursement and coverage policies and programs;

reduced or limited protections of intellectual property rights in jurisdictions outside the United States;