IRIDEX CORP
Form 424B4
December 09, 2016
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-213094

The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 8, 2016

PROSPECTUS SUPPLEMENT

(to Prospectus dated August 26, 2016)

Shares of Common Stock

We are offering 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 December , 2016, the last reported sale price of our common stock on The NASDAQ Global Market was $ 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.

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.

	No Exercise of Over-Allotment	Full Exercise of Over-Allotment

	Per Share	Total	Per Share	Total
Public offering price	$	$	$	$
Underwriting discounts and commissions(1)	$	$	$	$
Proceeds to IRIDEX, before expenses	$	$	$	$

(1) In addition, we have agreed to reimburse the underwriter for certain expenses. See Underwriting on page S-33 of this prospectus supplement for additional information.

The offering is being underwritten on a firm commitment basis. Delivery of the common stock is expected to be made on or about , 2016. We have granted the underwriter 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 shares of our common stock, less underwriting discounts and commissions, solely to cover overallotments, if any.

Sole Book-Running Manager

Roth Capital Partners

Prospectus Supplement dated , 2016.

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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 underwriter has 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 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.

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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.

About This Prospectus Supplement

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of the securities being offered by us and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference. 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. 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 and up to 2,060,688 shares of common stock that may be sold by the selling stockholders 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.

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 recently introduced 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 are used to treat proliferative diabetic retinopathy, macular holes, retinal tears and 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 recently 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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Corporate Information

IRIDEX Corporation was incorporated in California in February 1989 as IRIS Medical Instruments, Inc. In November 1995, 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.

IRIDEX, the IRIDEX logo, IRIS Medical, MicroPulse, OcuLight, SmartKey, and EndoProbe, are our registered trademarks. G-Probe, DioPexy, DioVet, TruFocus, TrueCW, IQ 577, IQ 532, Cyclo G6, TxCell, OtoProbe, Symphony, EasyFit, Endoview, MoistAir and GreenTip product names are our trademarks. All other trademarks or trade names appearing in this prospectus are the property of their respective owners.

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The Offering

Common stock offered by us	shares
Common stock to be outstanding after this offering	shares (excluding any shares of our common stock that may be acquired by the underwriter upon exercise of their overallotment option)
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 23 of our Quarterly Report on Form 10-Q for the period ended October 1, 2016, which Quarterly Report is incorporated herein by reference.
Transfer agent and registrar	Computershare, N.A.

The number of shares of common stock to be outstanding immediately after this offering is based on 10,146,235 shares outstanding as of October 1, 2016 and excludes as of this date:

462,386 shares of common stock subject to outstanding options;

335,805 outstanding restricted stock units (RSUs);

1,289 outstanding restricted stock awards; and

170,172 shares of common stock available for future issuance under our 2008 Equity Incentive Plan.

Except as otherwise indicated, all information in this prospectus assumes no exercise by the underwriter of their overallotment option.

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Summary Financial Data

The table below presents financial data for the periods indicated. The summary financial data as of January 2, 2016 and January 3, 2015 and for the years ended January 2, 2016, January 3, 2015 and December 28, 2013 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 financial data as of October 1, 2016 and for the nine months ended October 1, 2016 and October 3, 2015 have been derived from our unaudited condensed consolidated financial statements and related notes for those periods that are incorporated by reference in 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.

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. Our results of operations are for historical periods and are not necessarily indicative of results of operations for future periods.

Consolidated Statements of Operations Data:

	Fiscal Year Ended			Nine Months Ended	
	January 2, 2016	January 3, 2015	December 28, 2013	October 1, 2016	October 3, 2015
				(Unaudited)	
	(in thousands, except share and per share data)				
Total revenues	$ 41,757	$ 42,814	$ 38,273	$ 33,628	$ 29,644
Cost of revenues	21,804	21,409	19,686	18,352	15,176
Gross profit	19,953	21,405	18,587	15,276	14,468
Operating expenses:					
Research and development	5,214	4,629	3,684	4,007	4,000
Sales and marketing	8,901	8,155	7,720	7,212	6,463
General and administrative	5,550	6,034	5,023	5,546	4,206
Proceeds from demutualization of insurance carrier			(473)		
Total operating expenses	19,665	18,818	15,954	16,765	14,669
Income (loss) from operations	288	2,587	2,633	(1,489)	(201)
Other income (expense), net	3	(1,255)	(371)	(83)	134

Income (loss) before (benefit from) provision for income taxes	291	1,332	2,262	(1,572)	(67)
(Benefit from) provision for income taxes	(183)	(8,706)	31	(674)	(103)
Net income (loss)	$ 474	$ 10,038	$ 2,231	$ (898)	$ 36
Net income (loss) per share:					
Basic	$ 0.05	$ 1.01	$ 0.24	$ (0.09)	$ 0.00
Diluted	$ 0.05	$ 0.97	$ 0.22	$ (0.09)	$ 0.00
Weighted average shares used in computing net income (loss) per common share:					
Basic	9,962	9,892	9,245	10,083	9,956
Diluted	10,128	10,357	10,104	10,083	10,142

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Consolidated Balance Sheets Data:

	January 3, 2015	As of January 2, 2016	October 1, 2016 (Unaudited)
		(in thousands)	
Cash and cash equivalents	$ 13,303	$ 9,995	$ 9,577
Total assets	41,818	41,823	42,714
Deferred revenue	1,179	1,311	1,305
Total liabilities	8,082	8,135	8,162
Total stockholders equity	33,736	33,688	34,552

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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 October 1, 2016 as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, or 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 assemble critical subassemblies and substantially all of our final products at our facility in Mountain View, California. We may experience manufacturing difficulties, quality control issues or assembly constraints, particularly with regard to new products that we may introduce.

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 recent past, we have experienced supply chain, production and training issues as we have expanded our product lines and sales volumes. For example, in our third quarter of fiscal 2016, we experienced certain supply chain and sales force training issues in certain of our medical retina products. As a result of these issues, we reduced the shipment of these products in that fiscal quarter. In fiscal 2015, we experienced quality issues with certain of our products, which caused us to reduce shipments, particularly to international distributors.

While we have taken steps to address these issues, there is no assurance that these steps will be effective in rectifying or preventing similar issues in the future. If we are unable to address these supply chain, production and training 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 net revenues.

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 ongoing 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

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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.

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, results of operations and the price of our common stock.

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 third quarter of fiscal 2016, our international ophthalmology sales were $3.9 million, or 40% of total revenues. We anticipate that international sales will continue to account for a significant portion of our revenues in the foreseeable future. None of our international revenues and costs for the quarter ended October 1, 2016 have been denominated in foreign currencies. As a result, an increase in the value of the U.S. dollar relative to foreign currencies makes our 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;

quality 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;

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- changes in foreign medical reimbursement and coverage policies and programs;
- reduced or limited protections of intellectual property rights in jurisdictions outside the United States;
- potentially adverse tax consequences;
- protectionist, adverse and changing foreign governmental laws and regulations;
- greater risk of our employees failing to comply with both U.S. and foreign laws, including anti-trust regulations, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act of 2010 and any trade regulations designed to ensure fair trade practices; and
- compliance costs and risks of non-compliance with multiple regulatory regimes governing the production, marketing, sale and use of our products.

Any one or more of these factors stated above could have a material adverse effect on our business, financial condition or results of operations.

As we expand our existing international operations we may encounter new risks in addition to the above factors. For example, as we focus on building our international sales and distribution networks in new geographic regions, we must continue to develop relationships with qualified local distributors and trading companies. If we are not successful in developing these relationships, we may not be able to grow sales in these geographic regions. These or other similar risks could adversely affect our revenues, profitability and the price of our common stock.

We are exposed to risks associated with worldwide economic slowdowns and related uncertainties.

We are subject to macro-economic fluctuations in the U.S. and worldwide economy. Concerns about consumer and investor confidence, volatile corporate profits and reduced capital spending, international conflicts, terrorist and military activity, civil unrest and pandemic illness could reduce customer orders or cause customer order cancellations. In addition, political and social turmoil related to international conflicts and terrorist acts may put further pressure on economic conditions in the United States and abroad.

Weak economic conditions and declines in consumer spending and consumption may harm our operating results. Purchases of our products are often discretionary. During uncertain economic times, customers or potential customers may delay, reduce or forego their purchases of our products and services, which may impact our business in a number of ways, including lower prices for our products and services and reducing or delaying sales. There could be a number of follow-on effects from economic uncertainty on our business, including insolvency of key suppliers resulting in product delays, delays in customer payments of outstanding accounts receivable and/or customer insolvencies, counterparty failures negatively impacting our operations, and increasing expense or inability to obtain future financing.

If economic uncertainty persisted, or if the economy entered a prolonged period of decelerating growth, our results of operations may be harmed.

Our operating results may fluctuate from quarter to quarter and year to year.

Our sales and operating results may vary significantly from quarter to quarter and from year to year in the future. Our operating results are affected by a number of factors, many of which are beyond our control. Factors contributing to these fluctuations include the following:

changes in the prices at which we can sell our products, including the impact of changes in exchange rates;

general economic uncertainties and political concerns;

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- introduction of new products, product enhancements and new applications by our competitors, including new drugs, entry of new competitors into our markets, pricing pressures and other competitive factors;
- the timing of the introduction and market acceptance of new products, product enhancements and new applications;
- changes in demand for our existing line of ophthalmology products;
- the cost and availability of components and subassemblies, including the willingness and ability of our sole or limited source suppliers to timely deliver components at the times and prices that we have planned;
- our ability to maintain sales volumes at a level sufficient to cover fixed manufacturing and operating costs;
- fluctuations in our product mix within ophthalmology products and foreign and domestic sales;
- the effect of regulatory approvals and changes in domestic and foreign regulatory requirements;
- our long and highly variable sales cycle;
- changes in customers or potential customers budgets as a result of, among other things, reimbursement policies of government programs and private insurers for treatments that use our products;
- variances in shipment volumes as a result of quality, supply chain and training issues; and
- increased product innovation costs.

In addition to these factors, our quarterly results have been, and are expected to continue to be, affected by seasonal factors. For example, our European sales during the third quarter are generally lower due to many businesses being closed for the summer vacation season.

Our expense levels are based, in part, on expected future sales. If sales levels in a particular quarter do not meet expectations, we may be unable to adjust operating expenses quickly enough to compensate for the shortfall of sales, and our results of operations may be adversely affected. In addition, we have historically made a significant portion of each quarter s product shipments near the end of the quarter. If that pattern continues, any delays in shipment of products could have a material adverse effect on results of operations for such quarter. Due to these and other factors, we believe that quarter to quarter and year to year comparisons of our past operating results may not be meaningful. You should not rely on our results for any quarter or year as an indication of our future performance. Our operating results in future quarters and years may be below expectations, which would likely cause the price of our common stock to fall.

If we fail to develop and successfully introduce new products and applications, our business prospects and operating results may suffer.

Our ability to generate incremental revenue growth will depend, in part, on the successful outcome of research and development activities, which may include clinical trials that lead to the development of new products and new applications using our products. Our research and development process is expensive, prolonged, and entails considerable uncertainty. Due to the complexities and uncertainties associated with ophthalmic research and development, products we are currently developing may not complete the development process or obtain the regulatory approvals required to market such products successfully.

Successful commercialization of new products and new applications will require that we effectively transfer production processes from research and development to manufacturing and effectively coordinate with our suppliers. In addition, we must successfully sell and achieve market acceptance of new prod