ADVANCED MEDICAL OPTICS INC
Form 10-Q
November 05, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the quarterly period ended September 26, 2008

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the transition period from _________ to _________.

COMMISSION FILE NUMBER 001-31257

ADVANCED MEDICAL OPTICS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**33-0986820**
(State or other jurisdiction	**(I.R.S. Employer**
of incorporation or organization)	**Identification No.)**
1700 E. St. Andrew Place	
Santa Ana, California	**92705**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: 714/247-8200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 31, 2008, there were 61,281,853 shares of common stock outstanding.

Table of Contents

ADVANCED MEDICAL OPTICS, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 26, 2008

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Advanced Medical Optics, Inc.

Unaudited Consolidated Statements of Operations

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 26, 2008	September 28, 2007	September 26, 2008	September 28, 2007
Net sales	$ 275,635	$ 273,194	$ 899,863	$ 786,264
Cost of sales	110,570	121,030	349,438	348,683
Gross profit	165,065	152,164	550,425	437,581
Selling, general and administrative	118,099	137,916	376,068	397,136
Research and development	16,876	20,975	56,194	60,819
Restructuring charges (Note 2)	3,447		24,532	
Net gain on legal contingencies			(20,492)	
In-process research and development				86,980
Operating income (loss)	26,643	(6,727)	114,123	(107,354)
Non-operating expense (income):				
Interest expense	17,566	20,588	56,592	48,792
Unrealized (gain) loss on derivative instruments, net	(5,802)	2,433	(6,407)	2,738
Gain on investments	(1,099)		(3,167)	
Other, net	4,570	1,517	9,105	4,254
	15,235	24,538	56,123	55,784
Earnings (loss) before income taxes	11,408	(31,265)	58,000	(163,138)
Provision (benefit) for income taxes	4,335	(5,328)	22,040	17,484
Net earnings (loss)	$ 7,073	$ (25,937)	$ 35,960	$ (180,622)
Net earnings (loss) per share:				
Basic	$ 0.12	$ (0.43)	$ 0.59	$ (3.02)
Diluted	$ 0.11	$ (0.43)	$ 0.57	$ (3.02)
Weighted average number of shares outstanding:				
Basic	61,042	60,242	60,759	59,856
Diluted	63,114	60,242	62,663	59,856

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Advanced Medical Optics, Inc.

Unaudited Consolidated Balance Sheets

(In thousands, except share data)

	September 26, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and equivalents	$ 34,954	$ 34,525
Trade receivables, net	251,564	250,018
Inventories	192,623	160,267
Deferred income taxes	42,187	42,227
Income tax receivable		10,569
Other current assets	23,268	25,505
Total current assets	544,596	523,111
Property, plant and equipment, net	172,431	177,675
Deferred income taxes	14,073	14,111
Other assets	87,508	94,949
Intangible assets, net	597,773	649,369
Goodwill	1,289,153	1,289,121
Total assets	$ 2,705,534	$ 2,748,336
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and short-term borrowings	$ 4,500	$ 64,500
Accounts payable	64,197	88,432
Accrued compensation	50,490	54,410
Other accrued expenses	114,162	128,833
Income tax payable	12,149	
Deferred income taxes	6,425	6,419
Total current liabilities	251,923	342,594
Long-term debt	1,540,980	1,543,230
Deferred income taxes	192,243	198,333
Other liabilities	69,777	65,443
Commitments and contingencies (Note 10)		
Stockholders equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized; none issued		
Common stock, $.01 par value; 240,000,000 shares authorized; 61,298,622 and 60,647,394 shares issued	613	606
Additional paid-in capital	1,480,379	1,451,961
Accumulated deficit	(887,509)	(923,469)
Accumulated other comprehensive income	57,552	69,726
Treasury stock, at cost (18,199 and 3,186 shares)	(424)	(88)
Total stockholders equity	650,611	598,736
Total liabilities and stockholders equity	$ 2,705,534	$ 2,748,336

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Advanced Medical Optics, Inc.

Unaudited Consolidated Statements of Cash Flows

(In thousands)

	Nine Months Ended	
	September 26, 2008	**September 28, 2007**
Cash flows from operating activities:		
Net earnings (loss)	$ 35,960	$ (180,622)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Amortization of debt issuance costs	4,263	4,941
Depreciation and amortization	86,528	70,821
Deferred income taxes	(6,103)	(4,958)
In-process research and development		86,980
(Gain) loss on investments and long-lived assets	(2,734)	1,558
Unrealized (gain) loss on derivatives	(6,407)	2,738
Share-based compensation	18,314	15,504
Changes in assets and liabilities (net of effect of businesses acquired):		
Trade receivables, net	(1,717)	30,828
Inventories	(32,949)	3,326
Other current assets	(871)	1,558
Accounts payable	(18,932)	4,325
Accrued expenses and other liabilities	(14,218)	(6,628)
Income taxes	22,486	8,469
Other non-current assets and liabilities	5,201	(7,133)
Net cash provided by operating activities	88,821	31,707
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(77)	(737,773)
Additions to property, plant and equipment	(16,978)	(24,241)
Proceeds from sale of property, plant and equipment	615	751
Proceeds from sale of investments	4,417	
Additions to software and other long-lived assets	(770)	(5,391)
Additions to demonstration and bundled equipment	(9,944)	(6,328)
Net cash used in investing activities	(22,737)	(772,982)
Cash flows from financing activities:		
Repayments of short-term borrowings, net	(60,000)	51,000
Repayment of long-term debt	(2,250)	(2,250)
Payment of financing-related costs	(2,763)	(15,386)
Proceeds from issuance of long-term debt		695,500
Proceeds from issuance of common stock	5,111	18,651
Purchase of treasury stock		(64)
Net cash (used in) provided by financing activities	(59,902)	747,451
Effect of exchange rates on cash and equivalents	(5,753)	(4,149)
Net increase in cash and equivalents	429	2,027
Cash and equivalents at beginning of period	34,525	34,522

Cash and equivalents at end of period	$ 34,954	$ 36,549

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Advanced Medical Optics, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 1: Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary (consisting only of normal, recurring adjustments) for a fair statement of the financial information contained therein. These statements do not include all disclosures required by accounting principles generally accepted in the United States of America for annual financial statements and should be read in conjunction with the audited consolidated financial statements of Advanced Medical Optics, Inc. (the Company or AMO) for the year ended December 31, 2007. The results of operations for the three and nine months ended September 26, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

All material intercompany balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and related disclosures. Actual results could differ materially from those estimates.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value within generally accepted accounting principles, and expands disclosure requirements regarding fair value measurements. Although SFAS No. 157 does not require any new fair value measurements, its application may, in certain instances, change current practice. Where applicable, SFAS No. 157 simplifies and codifies fair value related guidance previously issued within GAAP. The Company has adopted FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), issued February 2008, and as a result the Company has applied the provisions of SFAS No. 157 that are applicable as of January 1, 2008, which had no material effect on its consolidated financial statements. FSP 157-2 delays the effective date of SFAS No. 157 for certain non-financial assets and non-financial liabilities until January 1, 2009. See Note 5 for the interim disclosures required by SFAS No. 157.

In October 2008, the FASB issued Staff Position No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP No. 157-3). FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP No. 157-3 was effective upon issuance on October 10, 2008, including prior periods for which financial statements had not been issued. The application of the provisions of FSP No. 157-3 did not materially affect the Company s results of operations or financial condition as of and for the three and nine months ended September 26, 2008.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS No. 141R), and SFAS No. 160, Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS No. 160). These new standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. The Company will be required to adopt SFAS No. 141R and SFAS No. 160 effective January 1, 2009. The Company has not yet determined the effect, if any, that the adoption of SFAS No. 141R and SFAS No. 160 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 is intended to improve financial reporting of derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for the Company January 1, 2009. The Company is evaluating the impact of this new standard but currently does not anticipate a material impact on its consolidated financial statements as a result of the implementation of SFAS No. 161.

6

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets (FSP No. 142-3). FSP No. 142-3 amends the factors that should be considered in developing assumptions about renewal or extension used in estimating the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). This standard is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other GAAP. FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The measurement provisions of this standard will apply only to intangible assets of the Company acquired after January 1, 2009.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162), which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with GAAP in the United States. SFAS No. 162 is effective sixty days following the SEC s approval of The Public Company Accounting Oversight Board s related amendments to remove the GAAP hierarchy from auditing standards.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) (FSP No. APB 14-1). FSP No. APB 14-1 applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under SFAS 133. FSP No. APB 14-1 specifies that issuers of convertible debt instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP No. APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. FSP No. APB 14-1 shall be applied retrospectively to all periods presented. The cumulative effect of the change in accounting principle on periods prior to those presented shall be recognized as of the beginning of the first period presented. An offsetting adjustment shall be made to the opening balance of retained earnings for that period, presented separately. The Company has not yet determined the effect that the adoption of FSP No. APB 14-1 will have on its consolidated financial statements.

Note 2: Restructuring Plan

After its acquisition of IntraLase Corp. (IntraLase) in the second quarter of 2007, the Company continued femtosecond laser manufacturing operations in Irvine, California (the Irvine Plant). As part of the overall integration of IntraLase, on December 13, 2007, AMO management committed to a plan to relocate the femtosecond laser manufacturing operations from the Irvine Plant to its excimer laser and phacoemulsification manufacturing facility in Milpitas, California (the Milpitas Plant), in order to consolidate equipment manufacturing in one location and to maximize opportunities to leverage core strengths. Also included in the plan was the movement of the assembly of IntraLase disposable patient interfaces from the Irvine Plant to AMO s facility in Puerto Rico in order to obtain additional synergies.

As a continuation of AMO s commitment to further enhance its global competitiveness, operating leverage and cash flow, the Board of Directors of AMO on February 12, 2008 approved an additional plan to reduce the Company s fixed costs. The additional plan included a net workforce reduction of approximately 150 positions, or about 4% of the Company s global workforce. In addition, AMO consolidated certain operations, including the relocation of all remaining activities at the Irvine Plant, to improve its overall facility utilization.

These plans include workforce reductions and transfers, outplacement assistance, relocation of certain employees, facilities-related costs, and accelerated amortization of certain long-lived assets and termination of redundant supplier contracts. These plans will also result in start-up costs such as expenses for moving, incremental travel, recruiting and duplicate personnel associated with hiring staff during ramp-up, as well as incremental costs associated with capacity underutilization of the Milpitas Plant during the ramp-up period.

Table of Contents

AMO expects to complete these activities in 2008 and estimates the total pre-tax charges resulting from these plans to be in the range of $36 million to $43 million, substantially all of which are expected to be cash expenditures. The Company incurred severance and retention bonus charges of $0.4 million under the plan in 2007. An estimated breakdown of the total charges is as follows:

Severance, retention bonuses, employee relocation and other one-time termination benefits	$20 million -$24 million
Facilities related and other costs	$10 million -$13 million
Termination of redundant supplier contracts and relocation of equipment and inventory	$2 million
Incremental costs for transition and start-up activities at the Milpitas Plant	$4 million

The Company has recorded the following costs associated with the restructuring plans (in thousands):

	Three Months Ended September 26, 2008	Nine Months Ended September 26, 2008
Costs included in cost of sales:		
Facilities related and other costs	$ 4,721	$ 4,721
Termination of redundant supplier contracts	166	166
Incremental costs for transition and start-up activities at the Milpitas Plant	803	803
	5,690	5,690
Costs included in selling, general and administrative expenses:		
Accelerated depreciation relating to the restructuring	1,839	3,678
Costs included in restructuring charges:		
Severance, retention bonuses, employee relocation and other one-time termination benefits	1,991	22,463
Facilities related and other costs		613
Travel and relocation	1,456	1,456
	3,447	24,532
Total	$ 10,976	$ 33,900

8

Table of Contents

Activities in the restructuring charges accrual balances during the nine months ended September 26, 2008 were as follows (in thousands):

	Balance at December 31, 2007	Costs Incurred	Cash Payments	Non-Cash Adjustments	Balance at September 26, 2008
Severance, retention bonuses, employee relocation and other one-time termination benefits	$ 351	$ 22,463	$ (15,944)	$ (1,090)	$ 5,780
Facilities related and other costs		5,334	(3,537)	(1,797)	
Termination of redundant supplier contracts and relocation of equipment and inventory		1,622	(1,622)		
Incremental costs for transition and start-up activities at the Milpitas Plant		803	(330)	(473)	
Accelerated depreciation relating to the restructuring		3,678		(3,678)	
	$ 351	$ 33,900	$ (21,433)	$ (7,038)	$ 5,780

Note 3: Composition of Certain Financial Statement Captions

Inventories:

(In thousands)	September 26, 2008	December 31, 2007
Finished goods, including consignment inventory of $8,840 and $7,712 in 2008 and 2007, respectively	$ 127,809	$ 93,503
Work in process	15,724	16,562
Raw materials	49,090	50,202
	$ 192,623	$ 160,267

Intangible assets, net

		September 26, 2008		December 31, 2007	
(In thousands)	Useful Life (Years)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortizable Intangible Assets:					
Patent	17	$ 431	$ (45)	$ 431	$ (26)
Licensing	3 - 5	4,590	(4,470)	4,590	(4,373)
Technology rights	5 - 19	548,251	(162,183)	549,737	(117,699)
Trademarks	13.5	17,724	(5,906)	17,899	(5,064)
Customer relationships	5 - 10	33,093	(18,012)	32,680	(13,106)
		604,089	(190,616)	605,337	(140,268)
Nonamortizable Tradename (VISX)	Indefinite	140,400		140,400	
Nonamortizable Tradename (IntraLase)	Indefinite	43,900		43,900	
		$ 788,389	$ (190,616)	$ 789,637	$ (140,268)

The amortizable intangible assets balance decreased due to the impact of $2.4 million in foreign currency fluctuation, partially offset by $1.2 million of technology rights, trademarks and customer relationships related to an acquisition. Amortization expense was $17.2 million and $51.5 million for the three and nine months ended September 26, 2008, respectively, and $17.4 million and $44.3 million for the three and nine months ended September 28, 2007, respectively, and is recorded in selling, general and administrative in the accompanying unaudited consolidated statements of operations. Amortization expense is expected to be $68.2 million in 2008, $68.0 million in 2009, $65.4 million in 2010, $63.5 million in 2011 and $58.6 million in 2012. Actual amortization expense may vary due to the impact of foreign currency fluctuations.

Table of Contents

Goodwill

(In thousands)	Balance at December 31, 2007	Foreign Currency Adjustments	Acquisition	Balance at September 26, 2008
Goodwill:				
Eye Care	$ 30,182	$ 1,434	$	$ 31,616
Cataract	365,785	(5,146)	3,744	364,383
Refractive	893,154			893,154
	$ 1,289,121	$ (3,712)	$ 3,744	$ 1,289,153

The change in goodwill during the nine months ended September 26, 2008 included a decrease of $3.7 million from foreign currency fluctuations in the Eye Care and Cataract segments. In addition, during the third quarter of 2008 the Company recorded $3.7 million of goodwill from an acquisition, which was included in the Cataract segment. In July 2008, the Company acquired the assets of a company that provides proprietary on-demand task automation software to ambulatory surgical centers for approximately $5.1 million. The business combination was not material to the consolidated financial position, results of operations or cash flows of the Company.

The Company performed its annual impairment test of goodwill and purchased intangible assets with indefinite lives during the second quarter of 2008 and determined there was no impairment. The valuation of goodwill and purchased intangible assets with indefinite lives requires assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows, investments in capital equipment and working capital, and discount rates. As compared to its internal projections, the Company has experienced declines in its Refractive revenue during the third quarter as a result of the ongoing impact of deteriorating economic conditions on this business. Adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a non-cash impairment charge related to intangible assets and/or goodwill prior to the next annual review in the second quarter of 2009, which could be material to the Company s consolidated financial statements.

Note 4: Debt

(In thousands)	Average Rate of Interest	September 26, 2008	December 31, 2007
Convertible Senior Subordinated Notes due 2024 (2 1/2% Notes), with put dates of January 15, 2010, July 15, 2014 and July 15, 2019	2.500%	$ 246,105	$ 246,105
Convertible Senior Subordinated Notes due 2025 (1.375% Notes), with put dates of July 1, 2011, July 1, 2016 and July 1, 2021	1.375%	105,000	105,000
Convertible Senior Subordinated Notes due 2026 (3.25% Notes), with put dates of August 1, 2014, August 1, 2017 and August 1, 2021	3.250%	500,000	500,000
Senior Subordinated Notes due 2017 (7 1/2% Notes)	7.500%	250,000	250,000
Term Loan due 2014 (Term Loan)	4.57%	444,375	446,625
Senior revolving credit facility	4.84%		60,000
		1,545,480	1,607,730
Less current portion		4,500	64,500
Total long-term debt		$ 1,540,980	$ 1,543,230

All of the convertible notes issued by the Company may be converted, at the option of the holders, on or prior to the final maturity date under certain circumstances, none of which had occurred as of September 26, 2008. Upon conversion of the convertible notes, the Company will satisfy in cash the conversion obligation with respect to the principal amount of the convertible notes, with any remaining amount of the conversion obligation to be satisfied in shares of common stock. As a result of this election, the Company also is required to satisfy in cash its obligations to repurchase any convertible notes that holders may put to the Company on the respective dates noted in the table above.

The Company has access to a credit facility (the Credit Facility), which is comprised of a $300 million revolving line of credit maturing in April 2013 (the Revolver) and a $450 million term loan maturing on April

2014 (the Term Loan). As of September 26, 2008, the Revolver included commitments to support letters of credit totaling $8.5 million issued on behalf of the Company for normal operating purposes, which resulted in an available balance of $291.5 million. The outstanding balance of the Term Loan as of September 26, 2008 was $444.4 million.

Borrowings under the Credit Facility, if any, bear interest at current market rates plus a margin based upon the Company s ratio of debt to EBITDA, as defined. The incremental interest margin on borrowings under the Credit Facility decreases as the Company s ratio of debt to EBITDA decreases to specified levels. During the third quarter of 2008, this interest margin was 1.75% over the applicable LIBOR rate. Additionally, the Company can borrow at the prevailing prime rate of interest plus an interest margin of 0.75%. The average annual rate of interest during the third quarter of 2008, inclusive of incremental margin, was 4.84% and 4.57% for the Revolver and Term Loan, respectively. Under the Credit Facility, certain transactions may trigger mandatory prepayment of borrowings. Such transactions may include equity or debt offerings, certain asset sales and extraordinary receipts. The Company pays a quarterly fee (1.875% per annum at September 26, 2008) on the average balance of outstanding letters of credit and a quarterly commitment fee (0.50% per annum at September 26, 2008) on the average unused portion of the Revolver. In addition, the Company makes mandatory quarterly amortization payments (1.0% per annum) on the outstanding balance of the Term Loan. The Credit Facility requires that the Company will maintain certain financial and operating covenants which include, among other provisions, maintaining specific leverage and interest coverage ratios. The Company was in compliance with the financial covenants at September 26, 2008. Certain covenants under the Credit Facility may limit the incurrence of additional indebtedness. The Credit Facility prohibits dividend payments by the Company. On October 5, 2007, as a result of the product recall in May 2007 discussed in Note 10, the Company amended the Credit Facility. The amendment changed the Maximum Consolidated Total Leverage Ratio for certain quarterly periods. Additionally, for purposes of calculating this ratio as well as the Minimum Consolidated Interest Coverage Ratio, the Company was permitted to exclude certain recall-related costs and other related impacts. On July 30, 2008, in anticipation of the effects to the LASIK business of the slowing U.S. economy, the Company amended the Credit Facility. The amendment changed the Maximum Consolidated Total Leverage Ratio for certain quarterly periods.

The Credit Facility is collateralized by a first priority perfected lien on, and pledge of, all of the Company s present and future property and assets (subject to certain exclusions), 100% of the stock of the domestic subsidiaries, 66% of the stock of foreign subsidiaries and all present and future intercompany debts.

As of September 26, 2008, the aggregate maturities of total long-term debt of $1.5 billion are due after 2012.

Guarantor Subsidiaries

In connection with the issuance of the 7 $^{1}/2$% Notes, certain of the Company s 100%-owned subsidiaries (Guarantor Subsidiaries) jointly, fully, severally and unconditionally guaranteed such 7 $^{1}/2$% Notes. Each subsidiary is 100%-owned by the parent company issuer. The following presents the condensed consolidating financial information separately for:

i. Advanced Medical Optics, Inc. (the Parent Company), the issuer of the guaranteed obligations;

ii. Guarantor Subsidiaries, on a combined basis, as specified in the Indenture;

iii. Non-guarantor subsidiaries, on a combined basis, as specified in the Indenture;

iv. Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions and balances between or among the Parent Company, the Guarantor Subsidiaries and the non-guarantor subsidiaries, (b) eliminate the Parent Company s investments in the subsidiaries and (c) record consolidating entries; and

v. Advanced Medical Optics, Inc. and subsidiaries on a consolidated basis.

Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use by the Parent Company and Guarantor Subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation.

Table of Contents

Condensed Consolidating Balance Sheet

September 26, 2008 (in thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Assets:					
Cash and equivalents	$ 1,496	$ 3,423	$ 30,035	$	$ 34,954
Trade receivables, net	152	72,483	178,929		251,564
Inventories	4,582	152,445	131,710	(96,114)	192,623
Other current assets	42,267	411,398	33,845	(422,055)	65,455
Total current assets	48,497	639,749	374,519	(518,169)	544,596
Property, plant and equipment	13,859	27,967	130,605		172,431
Goodwill and intangibles, net	29,673	1,394,441	495,012	(32,200)	1,886,926
Other assets	163,196	26,122	50,169	(137,906)	101,581
Investments in subsidiaries	2,600,467	3,697,670	2,302,157	(8,600,294)	
Total assets	$ 2,855,692	$ 5,785,949	$ 3,352,462	$ (9,288,569)	$ 2,705,534
Liabilities and stockholders equity:					
Short-term debt	$ 4,500	$	$	$	$ 4,500
Accounts payable and accrued expenses	393,152	69,713	178,877	(394,319)	247,423
Total current liabilities	397,652	69,713	178,877	(394,319)	251,923
Long-term debt, net of current portion	1,540,980				1,540,980
Other liabilities	266,449	52,701	80,085	(137,215)	262,020
Total liabilities	2,205,081	122,414	258,962	(531,534)	2,054,923
Total stockholders equity	650,611	5,663,535	3,093,500	(8,757,035)	650,611
Total liabilities and stockholders equity	$ 2,855,692	$ 5,785,949	$ 3,352,462	$ (9,288,569)	$ 2,705,534

Condensed Consolidating Balance Sheet

December 31, 2007 (in thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Assets:					
Cash and equivalents	$ 236	$ 2,031	$ 32,258	$	$ 34,525
Trade receivables, net	2,084	89,008	158,926		250,018
Inventories	7,301	141,651	107,900	(96,585)	160,267
Other current assets	38,370	312,884	30,953	(303,906)	78,301
Total current assets	47,991	545,574	330,037	(400,491)	523,111
Property, plant and equipment, net	14,021	31,998	131,656		177,675
Goodwill and intangibles, net	29,673	1,432,099	520,786	(44,068)	1,938,490
Other assets	158,899	32,956	49,097	(131,892)	109,060
Investments in subsidiaries	2,520,217	2,694,404	2,270,788	(7,485,409)	
Total assets	$ 2,770,801	$ 4,737,031	$ 3,302,364	$ (8,061,860)	$ 2,748,336
Liabilities and stockholders equity:					
Short-term borrowings	$ 64,500	$	$	$	$ 64,500
Accounts payable and other current liabilities	298,626	84,075	256,442	(361,049)	278,094
Total current liabilities	363,126	84,075	256,442	(361,049)	342,594
Long-term debt, net of current portion	1,543,230				1,543,230

Other liabilities	265,709	50,664	78,605	(131,202)	263,776
Total liabilities	2,172,065	134,739	335,047	(492,251)	2,149,600
Total stockholders equity	598,736	4,602,292	2,967,317	(7,569,609)	598,736
Total liabilities and stockholders equity	$ 2,770,801	$ 4,737,031	$ 3,302,364	$ (8,061,860)	$ 2,748,336

Table of Contents

Condensed Consolidating Statement of Operations

Three months ended September 26, 2008

(in thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	$ 31,620	$ 168,651	$ 250,070	$ (174,706)	$ 275,635
Operating costs and expenses:					
Cost of sales	23,249	156,840	156,432	(225,951)	110,570
Selling, general and administrative	30,329	45,009	43,863	(1,102)	118,099
Research and development	17,850	9,709	(10,683)		16,876
Restructuring Charges	(768)	1,330	2,885		3,447
Operating (loss) income	(39,040)	(44,237)	57,573	52,347	26,643
Non-operating (income) expense, net	(17,446)	(49,279)	(8,725)	90,685	15,235
Equity in earnings of subsidiaries	(23,907)	(58,143)		82,050	
Earnings before income taxes	2,313	63,185	66,298	(120,388)	11,408
(Benefit) provision for income taxes	(4,760)	4,352	4,743		4,335
Net earnings	$ 7,073	$ 58,833	$ 61,555	$ (120,388)	$ 7,073

Condensed Consolidating Statement of Operations

Three months ended September 28, 2007

(in thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	$ 64,660	$ 187,402	$ 208,564	$ (187,432)	$ 273,194
Operating costs and expenses:					
Cost of sales	54,244	112,293	139,508	(185,015)	121,030
Selling, general and administrative	21,093	52,240	66,224	(1,641)	137,916
Research and development	5,439	7,467	8,069		20,975
Operating (loss) income	(16,116)	15,402	(5,237)	(776)	(6,727)
Non-operating expense (income), net	51,512	(26,875)	(405)	306	24,538
Equity in (earnings) losses of subsidiaries	(26,305)	5,469		20,836	
(Loss) earnings before income taxes	(41,323)	36,808	(4,832)	(21,918)	(31,265)
(Benefit) provision for income taxes	(15,386)	10,900	(842)		(5,328)
Net loss	$ (25,937)	$ 25,908	$ (3,990)	$ (21,918)	$ (25,937)

Table of Contents

Condensed Consolidating Statement of Operations

Nine months ended September 26, 2008

(in thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	$ 115,469	$ 556,342	$ 810,031	$ (581,979)	$ 899,863
Operating costs and expenses:					
Cost of sales	75,599	413,177	511,636	(650,974)	349,438
Selling, general and administrative	69,603	134,550	175,603	(3,688)	376,068
Research and development	29,160	20,185	6,849		56,194
Restructuring charges	7,635	7,697	9,200		24,532
Net gain on legal contingencies	(8,812)		(11,680)		(20,492)
Operating (loss) income	(57,716)	(19,267)	118,423	72,683	114,123
Non-operating expense (income)	13,936	(52,388)	(40,736)	135,311	56,123
Equity in earnings of subsidiaries	(112,979)	(136,495)		249,474	
Earnings before income taxes	41,327	169,616	159,159	(312,102)	58,000
Provision for income taxes	5,367	5,603	11,070		22,040
Net earnings	$ 35,960	$ 164,013	$ 148,089	$ (312,102)	$ 35,960

Condensed Consolidating Statement of Operations

Nine months ended September 28, 2007

(in thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	$ 175,504	$ 530,909	$ 595,360	$ (515,509)	$ 786,264
Operating costs and expenses:					
Cost of sales	127,167	336,836	397,966	(513,286)	348,683
Selling, general and administrative	61,069	143,989	197,465	(5,387)	397,136
Research and development	14,106	18,072	28,641		60,819
In-process research and development		86,980			86,980
Operating loss	(26,838)	(54,968)	(28,712)	3,164	(107,354)
Non-operating expense (income), net	81,790	(75,951)	47,765	2,180	55,784
Equity in losses of subsidiaries	128,007	94,614		(222,621)	
Loss before income taxes	(236,635)				