ADVANCED MEDICAL OPTICS INC
Form 10-K
February 24, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2008

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File No. 001-31257

ADVANCED MEDICAL OPTICS, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware	33-0986820
(State of Incorporation)	(I.R.S. Employer Identification No.)

1700 E. St. Andrew Place, Santa Ana, California	92705
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number: (714) 247-8200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which each class registered
Common Stock, $0.01 par value	**New York Stock Exchange**

Preferred Stock Purchase Rights

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Exchange Act. Yes ¨ No x

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15 (d) of the Exchange Act from their obligations under those Sections.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

The aggregate market value of the registrant s voting and non-voting common equity held by non-affiliates is approximately $500 million based upon the closing price on the New York Stock Exchange as of June 27, 2008.

Common Stock outstanding as of February 4, 2009: 61,778,863 shares (including 43,183 shares held in treasury).

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business

Advanced Medical Optics, Inc. (AMO or the Company) was incorporated in Delaware in October 2001 as a subsidiary of Allergan, Inc. (Allergan). Allergan spun-off our company to its stockholders by way of a distribution of all of our shares of common stock on June 29, 2002. As a result of our spin-off from Allergan, we are an independent public company, and Allergan has no continuing stock ownership in us. Unless the context requires otherwise, references to AMO, the Company, we, us or our refer to Advanced Medical Optics, Inc. and its subsidiaries.

Overview

We are a global leader in the development, manufacture and marketing of medical devices for the eye. We market and sell products through three major strategic business units (SBUs): cataract, refractive, and eye care. In the cataract SBU, we focus on the four key products required for cataract surgery monofocal intraocular lenses (monofocal IOLs), implantation systems, phacoemulsification systems and viscoelastics. In the refractive SBU, we market excimer and femtosecond laser systems, related treatment cards and disposable patient interfaces, related diagnostic devices and refractive implants. Our eye care SBU provides a full range of contact lens care products for use with a wide range of contact lenses. Our products include single-bottle, multi-purpose cleaning and disinfecting solutions, hydrogen peroxide-based disinfecting solutions, daily cleaners, enzymatic cleaners and contact lens rewetting drops. In 2008, we also introduced eye drops designed to treat the symptoms of dry eye. The products across our three SBUs are sold in approximately 60 countries and we have direct operations in approximately 27 countries.

In June 2004, we completed our acquisition of Pfizer Inc. s surgical ophthalmic business, which expanded our viscoelastic and intraocular lens (IOL) product offerings, allowing us to offer a more comprehensive portfolio of products required to perform cataract surgery. We acquired the *Healon* family of viscoelastic products and the *Tecnis* IOL brand. The addition of the *Healon* family, a leading viscoelastic brand, significantly expanded our viscoelastic product line. The *Tecnis* IOL brand further strengthened our position in the ophthalmic surgery market with the *Tecnis* Multifocal IOL brand further expanding our refractive IOL portfolio. We also acquired the *Baerveldt* glaucoma shunt, or drainage device, which provided an entry for us into the glaucoma market.

In May 2005, we acquired VISX, Incorporated (VISX). As a result of the VISX acquisition, we are a leader in the design and development of proprietary technologies and systems for laser vision correction of refractive vision disorders. Our products include the *VISX STAR* Excimer Laser System, which is a fully integrated ophthalmic medical device incorporating an excimer laser and a computer-driven workstation; the *VISX WaveScan* System, which is a diagnostic device that uses laser beam technology to measure comprehensive refractive errors of the eye and derive comprehensive refractive information about a patient s individual optical system; and *VISX* treatment cards, which provide the user with per procedure access to proprietary technology.

In April 2007, we acquired IntraLase Corp. (IntraLase), a designer, developer and manufacturer of an ultra-fast laser for refractive and corneal surgery that creates precise corneal incisions for laser vision correction in the first step of laser assisted in-situ keratomileusis, or LASIK surgery. Our products include the *IntraLase FS* femtosecond laser system and per procedure fees (inclusive of a disposable patient interface) for each eye treated.

On January 11, 2009, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Abbott Laboratories (Abbott) and Rainforest Acquisition Inc., a wholly owned subsidiary of Abbott (Purchaser). Subject to the terms and conditions of the Merger Agreement, on January 27, 2009, Purchaser commenced a tender offer to purchase all of our outstanding shares of common stock, par value $0.01, including the associated preferred stock purchase rights, at a purchase price of $22.00 per share, net to the holder in cash, without interest. The consummation of the tender offer will be conditioned on the tender of a majority of the outstanding shares of our common stock on a fully diluted basis and other conditions that are specified in the offer documents. Following completion of the tender offer and, if required, receipt of stockholder approval, we expect to consummate a merger in which the remaining Company stockholders will receive the same cash price per share as paid in the tender offer.

Table of Contents

Industry

Vision and Vision Impairment.

How Vision Works. Vision is enabled by the cornea and the lens, which work together to focus light on the retina. The iris regulates the amount of light that passes through the cornea onto the retina, providing for optimal vision in different lighting conditions. The retina contains light-sensitive receptors that transmit the image through the optic nerve to the brain.

Cataracts. Cataracts are an irreversible progressive ophthalmic condition in which the eye s natural lens loses its original transparency and becomes clouded and opaque. This clouding obstructs the passage of light to the retina and can eventually lead to blindness.

Refractive Disorders. Refractive disorders, such as myopia, hyperopia, astigmatism and presbyopia, occur when the lens system is unable to properly focus images on the retina. For example, with myopia (nearsightedness), light rays focus in front of the retina because the curvature of the cornea is too steep for the length of the eye. With hyperopia (farsightedness), light rays focus behind the retina because the curvature of the cornea is too flat for the length of the eye. Astigmatism makes it difficult for a person to focus on any object because the otherwise uniform curvature of the cornea or lens is not symmetrical across the surface. Presbyopia is the progressive loss of flexibility of the lens and its ability to change shape to focus from far to near objects, and is presumably caused by aging of the eye s natural lens.

Ophthalmic Surgical Products Market. Ophthalmic surgical products generally are designed to correct impaired vision through minimally invasive surgical procedures. As the eye ages, the prevalence of cataracts and refractive disorders generally increases. We believe that an aging population, introduction of new technologies and increasing market acceptance present opportunities for growth in the ophthalmic surgical market.

Cataract Treatment. The largest segment of the ophthalmic surgical products market is the treatment of cataracts. Cataract extraction followed by IOL implantation is one of the most common surgical procedures performed in the United States and most other developed nations. As estimated by MarketScope, approximately 3.1 million cataract procedures were performed in the United States and over 15.1 million cataract procedures were performed worldwide in 2008. MarketScope estimates that the global cataract surgery market, which includes sales of IOLs, phacoemulsification equipment, viscoelastics and other related products, was approximately $4.1 billion in 2008 and is projected to grow at a compound annual growth rate of approximately 7.3% from 2008 to 2013. The data in this report attributed to MarketScope is used with the permission of MarketScope.

During cataract surgery, patients are often treated using phacoemulsification, a process that uses ultrasound waves to break the natural lens into tiny fragments that can be removed from the eye. Viscoelastics are used during cataract surgery to protect the inner layer of the cornea, manage intraocular tissues and maintain space in the anterior chamber of the eye and the capsular bag (which houses the lens), allowing the eye to maintain its shape. IOLs replace the natural, clouded lens.

The following table sets forth the estimated revenues for each component of the global cataract surgery market in its various components for the year 2008 according to MarketScope (in millions):

IOLs	$ 1,889
Viscoelastics	560
Phacoemulsification machines and accessories	795
Other	897
Total	$ 4,141

Refractive Vision Correction. Another segment of the ophthalmic surgical market is the surgical treatment of refractive disorders.

LASIK. The most common refractive surgery procedure is laser surgery, and the most common surgical technique for treating refractive disorders is LASIK. LASIK involves the creation of a thin corneal flap, which is then gently retracted to expose the underlying tissue, which is treated using an excimer laser to achieve vision correction. The corneal flap is created with either a mechanical blade microkeratome, or with the more advanced femtosecond laser. The mechanical microkeratome uses a mechanically driven blade at a certain depth to create the flap. The femtosecond laser creates the flap using a computer controlled precision laser.

Table of Contents

As a result of the VISX and IntraLase acquisitions, we are a leader in the design and development of proprietary technologies and systems for laser vision correction of refractive vision disorders. Laser vision correction eliminates or reduces reliance on eyeglasses or contact lenses. It employs a computerized laser that ablates, or removes, sub-micron layers of tissue from the cornea, reshaping the eye and thereby improving vision.

Standard LASIK was introduced in the mid 1990s. In performing standard LASIK, an ophthalmologist conducts a traditional eye examination to determine the prescription required to correct the patient s vision. The prescription is then programmed into the laser system, which calculates the ablation needed to make a precise corneal correction to treat nearsightedness, farsightedness and astigmatism. Unlike custom LASIK, discussed below, standard LASIK cannot identify higher order aberrations, which are additional imperfections in the optical system.

The most advanced method of performing laser vision correction is custom LASIK. Custom LASIK employs a diagnostic evaluation of the eye that measures refractive errors in the patient s vision more precisely than previously available technology. The diagnostic device obtains comprehensive information about the imperfections, or refractive errors, of each patient s vision. Refractive errors are displayed by the diagnostic device in the form of an aberration map that offers a unique pattern for each patient s eye, similar to a fingerprint. The map displays information about refractive errors that result in nearsightedness, farsightedness and astigmatism, as well as information about higher order aberrations that were not previously measurable by any other instrument. The information from the diagnostic device is used to generate a personalized treatment plan that is digitally transferred to the laser system. The ablation derived from this information is therefore customized to the individual s eye.

Laser vision correction can also be performed by photorefractive keratectomy (PRK). PRK does not require the use of a microkeratome, and the epithelial layer (or outer layer) of the cornea is removed before ablation. Patients may experience discomfort for approximately 24 hours and blurred vision for approximately 48 to 72 hours after the procedure. Drops to alleviate discomfort may be prescribed. Although most patients experience significant improvement in uncorrected vision (vision without the aid of eyeglasses or contact lenses) within a few days of the procedure, unlike LASIK it generally takes several months for the final correction to stabilize and for the full benefit of the procedure to be realized.

IOLs. Surgical implantation of IOLs also may be used to treat patients with refractive disorders. Phakic IOLs can be implanted in front or in back of the iris and work in conjunction with the patient s natural lens to treat refractive disorders. Multifocal IOLs, which replace the natural lens, address near, intermediate and distance vision. Other procedures, such as replacing the patient s natural lens with an accommodating IOL for refractive vision correction, are also being developed.

Eye Care Market. As the use of contact lenses has increased the demand for disinfecting solutions and contact lens rewetting drops has increased. We believe that the contact lens market growth is driven by technological advancements in lens materials and designs and demographic growth in younger wearers. In response to increasing popularity of more frequently replaceable lenses and consumer interest in more convenient lens care regimens, we believe the contact lens care market continues to evolve toward greater use of single-bottle, multi-purpose solutions and away from hydrogen peroxide-based solutions. This evolution has had an unfavorable impact on the global hydrogen peroxide-based solutions market, which is concentrated in Japan and parts of Europe.

Overall, we believe that demographic trends, new lens materials and specialty lenses are fueling global increases in the number of contact lens wearers, especially in China and other Asia Pacific countries. We believe that this is contributing to overall growth in multi-purpose solutions. The exception to this positive dynamic is in Japan, where a higher than average percent of the market has moved to daily disposable contact lenses that use cleaning solutions only occasionally or not at all.

Finally, the eye care market includes artificial tear and contact lens rewetter products designed to relieve dryness associated with contact lens wear, environmental conditions and dry eye disease. We believe the global market for artificial tear products exceeds $500 million per year.

Table of Contents

Our Products

Cataract Business Unit

Cataract Surgery

We focus on the four key devices for the cataract surgery market:

Monofocal foldable IOLs Monofocal foldable IOLs are artificial lenses used to replace the human lens.

Implantation systems Implantation systems are designed and used specifically to implant IOLs during cataract surgery.

Phacoemulsification systems Phacoemulsification systems use ultrasound during small incision cataract surgery to break apart and remove the cloudy human lens prior to its replacement with an IOL.

Viscoelastics Viscoelastics provide a barrier of protection for the cornea during phacoemulsification and maintain the shape of the eye during IOL insertion.

Monofocal Intraocular Lenses. As a leading provider of IOLs, we offer surgeons a choice of high quality, innovative foldable IOLs in both acrylic and silicone materials, together with our proprietary implantation systems, for use in minimally invasive cataract surgical procedures. Sales of our monofocal IOLs represented approximately 24% of our net sales in each of 2008, 2007 and 2006. Our monofocal IOLs primarily include:

Tecnis a family of foldable IOLs with an aspheric surface. The *Tecnis* lens is the first IOL to receive FDA approval for claims of improved functional vision, which can result in quicker recognition of objects in lower-light conditions. The *Tecnis* lens was the first aspheric lens designated as a new technology intraocular lens by the U.S. Center for Medicare and Medicaid Services (CMS) (formerly the Health Care Financing Administration). With this designation, ambulatory surgery centers can receive $50 in additional reimbursement when implanting the *Tecnis* IOL. The three-piece *Tecnis* lens is available globally in acrylic and silicone. The new *Tecnis* 1-piece IOL combines the *Tecnis* aspheric optic with proprietary advances in 1-piece IOL design and is available in the U.S. and Europe in an acrylic material.

Sensar an acrylic monofocal IOL, with the patented *OptiEdge* design, intended to reduce lens epithelial cell migration, in order to lessen the need for subsequent corrective laser procedures, and to reduce the potential for unwanted glare and reflections following implantation.

ClariFlex a silicone monofocal IOL, also with the *OptiEdge* design.

Implantation Systems. As a companion to our foldable IOLs, we market insertion systems for each of our foldable IOL models. The *Unfolder,* our proprietary series of implantation systems, which includes the *Emerald*, *Emerald AR* and *SilverT* implantation systems, is used for insertion of our foldable IOLs. These systems assist the surgeon in achieving controlled release of the intraocular lens into the capsular bag through a small incision in the eye.

Phacoemulsification Systems. We are a leading provider of phacoemulsification systems, and have a range of systems to meet market needs. Phacoemulsification systems use disposable or reusable packs that are necessary to operate the equipment. The majority of our phacoemulsification product sales are from sales of these packs and related accessories.

We currently market the following phacoemulsification systems:

WhiteStar Signature the *WhiteStar Signature* system is our premium system and our newest to the market. The *WhiteStar Signature* system combines the proven performance of proprietary *WhiteStar* technology, which creates less heat and turbulence in the ocular environment, with the safety of advanced *Fusion* fluidics to optimize patient outcomes.

Sovereign Compact is a mid-sized phacoemulsification system designed to meet surgeons needs for an advanced phacoemulsification system, with the similar functionality of the *WhiteStar Signature* system, in a smaller, more portable size. The *Sovereign Compact* system is also available with *Occlusion Mode*, our proprietary fluidics system, and *WhiteStar* technology.

Table of Contents

Diplomax II is a small-sized phacoemulsification system designed for surgeons who need a less expensive and more portable machine. These systems do not include *WhiteStar* technology, but do employ *Occlusion Mode* technology.

Viscoelastics. We are a leading provider of viscoelastic products with the *Healon* family of viscoelastics. The different characteristics associated with each *Healon* product, *Healon, Healon GV, Healon5* and *Healon D,* provide surgeons with a range of viscoelastic choices that combine the familiarity of the *Healon* line with advanced technologies to satisfy different surgical needs. In 2008, we introduced dual combination viscoelastic packs featuring dispersive and cohesive *Healon* products. Sales of our viscoelastic products represented approximately 11% of our net sales in both 2008 and 2007, and 12% of our net sales in 2006.

Other Cataract Surgical Related Products. In addition to our IOLs, phacoemulsification equipment and viscoelastics, we also provide several ancillary products related to the cataract surgery market, including:

Irrigating Solutions. We offer irrigating solutions for use in cataract surgery to help maintain space in the eye and to aid in removing residual tissue during phacoemulsification. Irrigating solutions are balanced saline solutions that are compatible with the natural fluid of the anterior segment of the eye.

Custom Eye Trays. We work with partners in our local markets to offer custom eye trays to our customers. These custom eye trays typically consist of all of the ancillary items that a surgeon needs to use in a single cataract surgery, such as surgical knives, drapes, gloves and gowns. Our partners typically handle assembly, distribution and billing for the product and in most cases we receive a fee per tray from our partners.

Capsular Tension Rings. We also sell capsular tension rings, which are inserted into the capsular bag during cataract surgery and function to stabilize the capsular bag during placement of an IOL.

Other Surgical Products

Glaucoma Implant. The *Baerveldt* glaucoma implant is indicated for use in patients with medically uncontrollable glaucoma and a poor surgical prognosis due to severe preexisting conditions. This can include: neovascular glaucoma, aphakic/pseudophakic glaucoma, failed conventional surgery, congenital glaucoma, and secondary glaucoma due to uveitis or epithelial down growth. *Baerveldt* glaucoma implants are available in three models, all of which feature a larger surface area plate than competing single-quadrant devices.

Refractive Business Unit

Our refractive products include the following:

IntraLase FS Laser System The *IntraLase FS* laser system is an ultra-fast femtosecond laser used to create the flap of corneal tissue before LASIK treatment with an excimer laser. The femtosecond laser creates the flap by focusing its beam of light below the surface of the corneal tissue, creating a precise cut. A per procedure fee, inclusive of a disposable patient interface, is charged for each eye treated with the *IntraLase FS* laser. The *IntraLase* system is also approved for IntraLase Enabled Keratoplasty (IEK) for corneal transplants.

VISX STAR Excimer Laser The *VISX STAR* system is a fully integrated ophthalmic medical device incorporating an excimer laser and a computer-driven workstation. This laser is used to reshape the cornea to correct refractive errors, both for standard LASIK and custom LASIK, or our *CustomVue* procedure (described below), as well as PRK and other specialized procedures. Our Iris Registration technology, included in the *VISX STAR IR* system, is the first fully automated method of aligning custom LASIK treatments with the patient s eye to adjust for eye movement.

VISX WaveScan System The *WaveScan* System is a diagnostic device that uses laser beam technology to measure comprehensive refractive errors of the eye and uses complex mathematical algorithms to derive comprehensive refractive information about the patient s individual optical system. This information is then used to create a personalized treatment plan that is digitally transferred to the *VISX STAR* laser for an individualized *CustomVue* procedure.

VISX Treatment Cards Our proprietary treatment cards control the use of the *VISX STAR* system. Each card provides the user with specific access to proprietary technology. Types of VISX treatment cards

Table of Contents

include *VisionKey* Cards for performing standard LASIK procedures, which in the U.S. carries a procedure fee for each procedure that is purchased; *CustomVue* Cards for performing Custom LASIK, which carry a worldwide procedure fee for each procedure that is purchased; Custom-CAP Cards for performing laser vision correction with a previously decentered ablation, which carry a worldwide procedure fee for each procedure that is purchased; and the PTK Card, which is offered to physicians at a nominal charge to treat certain types of corneal pathologies. Sales of our treatment cards and associated procedure fees represented approximately 21% of our net sales in both 2008 and 2007, and 15% of our net sales in 2006.

Multifocal and Refractive Lenses

ReZoom an acrylic multifocal IOL with optical zones that provide near, intermediate and distance vision, reducing that patient s dependence on eyeglasses. This lens received approval from CMS to allow patients in the U.S. to pay the difference between the $150 reimbursement rate for IOLs and the amount that is charged (patient shared billing). The *ReZoom* IOL is also approved in Europe for the treatment of presbyopia.

Tecnis Multifocal a multifocal IOL, available in both silicone and acrylic, with a diffractive, aspheric lens surface is approved for use in cataract surgery in the U.S. and other key global markets. In Europe, Latin America and Asia Pacific it is also approved for treatment of presbyopia. The *Tecnis Multifocal* IOL is approved for patient shared billing in the U.S.

Verisyse a phakic IOL that works in conjunction with the human lens to treat high myopia.

VeriFlex a foldable version of the *Verisyse* lens; a phakic IOL that works in conjunction with the human lens to treat high myopia, currently available outside of the U.S.

Eye Care Business Unit

In the eye care market, we focus on creating products that enhance ocular comfort and health for the general public as well as those who wear contact lenses.

Our eye care business develops, manufactures and markets a full range of contact lens care products for use with most types of contact lenses. Our comprehensive product offering includes single-bottle multi-purpose cleaning and disinfecting solutions and hydrogen peroxide-based disinfecting solutions to destroy harmful microorganisms in and on the surface of contact lenses; daily cleaners to remove undesirable film and deposits from contact lenses; enzymatic cleaners to remove protein deposits from contact lenses; and lens rewetting drops to provide added wearing comfort. In 2008, we entered the artificial tears segment of the eye care market as well.

Multi-Purpose Solutions. We market our *Complete* brand single-bottle multi-purpose solutions, a convenient, one bottle chemical disinfecting system for soft contact lenses, on a worldwide basis. Sales of our multi-purpose solutions represented approximately 8%, 5% and 15% of our net sales in 2008, 2007 and 2006, respectively.

Hydrogen Peroxide-Based Solutions. We offer products that use hydrogen peroxide-based disinfection systems. Our leading hydrogen peroxide brands are the *Oxysept* and *Consept* solutions.

Lens Rewetting Solutions. We believe that dryness and discomfort are the reasons most often cited for discontinuing contact lens wear. We have introduced contact lens rewetting drops designed to provide prolonged lubrication and improved protection against dryness. Our products in this category include *Complete* and *blink* rewetting solutions. We also offer *Complete Blink-N-Clean,* a unique in-the-eye lens cleaning solution.

Artificial Tears. An aging population, severe environmental conditions and greater computer use are among the contributors to an increase in the prevalence and awareness of dry eye. We have introduced blink® *Tears*, a brand of lubricating eye drops designed to relieve symptoms associated with this condition.

Research and Development

Our long-term success is dependent on the introduction of new and innovative products in all business segments. Our research and development strategy is to develop proprietary products for vision correction that are safe and effective and address unmet needs. As we implement this strategy, we will seek to develop new products with measurable benefits such as increased practitioner productivity, better patient outcomes and reduced costs to health care payors and providers.

Table of Contents

Research and development activities for our cataract business are focused on expanding our product portfolio. We have focused on five areas of opportunity to provide superior outcomes in cataract surgery:

Small incision surgery A procedural approach that includes the development of advanced lens materials, IOL designs, small incision phacoemulsification techniques and products and ophthalmic viscoelastic devices (OVDs) to enable small incision surgery, which results in less induced astigmatism, rapid stabilization of the wound and faster visual rehabilitation.

Advances in phacoemulsification technology providing surgeons with high levels of cutting efficiency and fluidics control but with less heat and turbulence directed into the ocular environment enabling more effective, efficient and safer cataract extraction procedures.

Restoring accommodation following cataract surgery following cataract surgery, the eye loses its ability to accommodate, or shift its field of focus. Through the development of multifocal and accommodating IOLs, we aim to provide for the full range of vision following cataract surgery.

Improving quality of vision advancements in optics and optical surface designs.

Greater ease of use for practitioners development of intraocular lens designs and advanced insertion devices, which allow for easier handling in the operating room and greater surgeon control.

In the area of laser vision correction, our research and development efforts are focused on advancements in LASIK and adjunctive technologies. Current projects include:

development of advanced technologies for wavefront measurement, corneal topography and other diagnostics useful for corneal refractive surgery;

expanded treatment applications for custom wavefront-guided LASIK, including wavefront-guided treatment of presbyopia; and

advances in ablation and flap cutting technologies;

Our research and development efforts in the eye care business are aimed at developing proprietary disinfectant systems that are effective and convenient for customers to use, which we believe will result in longer, more comfortable lens wear and a higher rate of compliance with recommended lens care procedures. Our efforts include seeking formulations that provide enhanced cleaning and disinfection without irritation, prolonged lubrication, improved ocular health and protection against dryness. Additionally, we are committed to building on our blink® *Tears* product line through the development of improved artificial tears that address the full range of dry eye disorders from mild to moderate to severe.

We plan to supplement our research and development activities with a commitment to identifying and obtaining new technologies through in-licensing, technological collaborations and joint ventures, including the establishment of research relationships with academic institutions and individual researchers.

We spent approximately $75.9 million in 2008, $81.8 million in 2007 and $66.1 million in 2006, or 6.4%, 7.5%, and 6.6% of total net sales in 2008, 2007, and 2006, respectively, on research and development, excluding a non-cash in-process research and development charge of $87.0 million in 2007. We believe that the continuing introduction of new products supplied by our research and development efforts and in-licensing opportunities are critical to our success. There are, however, inherent uncertainties associated with our research and development efforts and the regulatory approval process and we cannot provide assurance that any of our research projects will result in new products that we can

commercialize.

Customers, Sales and Marketing

Customers. Our primary customers for our cataract and refractive products include surgeons who perform eye surgeries and hospitals and ambulatory surgical centers, including corporate LASIK chains. The primary customers for our eye care products include optometrists, opticians, ophthalmologists, retailers and clinics that sell directly to consumers. These retailers include mass merchandisers such as Wal-Mart, drug store chains such as Walgreen, hospitals, commercial optical chains and food stores. During 2008, 2007 and 2006, no customer accounted for over 10% of our net sales.

Table of Contents

Sales and Marketing. Our sales efforts and promotional activities with respect to our cataract and refractive products are primarily aimed at eye care professionals such as ophthalmologists who use our products. Similarly, our sales and promotional efforts in eye care are primarily directed towards optometrists, opticians, optical shops, ophthalmologists and consumers. We often provide samples of our eye care products to practitioners to distribute to their patients to encourage trial use of our solutions. In addition, we advertise in professional journals and have a direct mail program of descriptive product literature and scientific information that we provide to specialists in the eye care field. We have also developed training modules and seminars to update practitioners regarding evolving technology.

Recognizing the importance of our sales force s expertise, we invest significant time and expense to provide training in such areas as product features and benefits. Training for our ophthalmic surgical products sales force focuses on providing sales personnel with technical knowledge regarding the scope and characteristics of the products they are selling and developing skills in presenting and demonstrating those products. In addition to providing product knowledge for communication to eye care practitioners, our eye care products sales force focuses on developing the necessary skills to negotiate with buyers for mass merchandisers and large drug store chains. This sales force also seeks to develop relationships with eye care professionals who may purchase our products and recommend them to their patients.

Each of our products is marketed under its brand name and our corporate name. We have a worldwide marketing organization which helps us set overall marketing direction, promote consistent global brand positioning and allocate marketing resources to products and regions offering the greatest return. In order to remain sensitive to cultural differences and varying health care systems throughout the world, tactical execution of marketing programs and all sales activities are carried out at the regional level.

We also use third-party distributors for the distribution of our products in smaller geographic markets. No individual agent or distributor accounted for more than 10% of our net sales for the years ended December 31, 2008, 2007 and 2006.

Traditionally, we have realized a seasonal trend in our sales, with the smallest portion of our cataract business sales being realized in the first quarter and with sales gradually increasing from the second to fourth quarter. This has been driven predominantly by seasonality in the sales of capital equipment when customers increase spending as they reach their year end and are able to spend the remainder of their annual budgeted amounts. In the refractive business, the seasonal trend favors the highest portion of sales in the first quarter.

Manufacturing, Operations and Facilities

We manufacture eye care products at our facilities in Hangzhou, China, and Alcobendas, Spain. We manufacture refractive surgical products at our facilities in Milpitas, California, Albuquerque, New Mexico and Añasco, Puerto Rico, and we manufacture cataract surgical products at our facilities in Añasco, Puerto Rico, Groningen, Netherlands and Uppsala, Sweden.

In November 2003, we entered into an agreement with Nicholas Piramal India Limited for the supply of neutralizing tablets primarily used with our hydrogen peroxide-based lens care products and unit dose solutions. Nicholas Piramal is a sole-source supplier of these products. If supply of these products were interrupted, we cannot assure you that we would be able to obtain replacement products, and our eye care product sales may be negatively impacted in a material manner.

Our *Sovereign Compact* system is manufactured by Sanmina-SCI under a manufacturing and supply agreement, which terminates on May 7, 2009. If Sanmina-SCI were to cease manufacturing for any reason, we cannot assure you that we would be able to replace them on terms favorable to us, or at all.

VISX STAR, *WaveScan*, *IntraLase Femtosecond*, and *Signature Whitestar* systems are manufactured in facilities located in Milpitas, California, where these instruments are assembled, programmed, and tested. In 2008, we relocated our Santa Clara, California and Irvine, California manufacturing operations to our Milpitas, California facility. We purchase all of the components used in the manufacturing and assembly of our equipment product offerings from outside vendors. A portion of the components used in our products are made by sole source vendors. Although these components constitute only a portion of the total components in our product offerings, these components are integral to our products and as a result our success is tied to our continuing ability to obtain supplies of these components. Please see our risk factors for a discussion of the risks related to our reliance on single and limited source vendors.

Table of Contents

Governmental Regulation

United States. Our products and operations are subject to extensive and rigorous regulation by the FDA. The FDA regulates the design, testing, manufacturing, packaging, labeling, storage, installation, servicing, recordkeeping, advertising, promotion and distribution of medical devices in the United States to provide reasonable assurance that medical products are safe and effective for their intended uses. The Federal Trade Commission also regulates the advertising and promotion of our products.

Under the Federal Food, Drug, and Cosmetic Act, medical devices are classified into one of three classes Class I, Class II or Class III depending on the degree of risk associated with each medical device and the extent of control needed to provide a reasonable assurance of safety and effectiveness. Our current products are Class I, II and III medical devices. Examples of Class I devices include our unfolder handpieces for insertion of IOLs and certain accessories for our phacoemulsification equipment. Examples of Class II devices include the femtosecond laser and phacoemulsification systems. Examples of Class III devices include IOLs and excimer lasers for vision correction.

Class I devices are those for which safety and effectiveness can be reasonably assured by adherence to FDA guidelines and regulations, including compliance with the applicable portions of the FDA s regulations governing quality systems, facility registration and product listing, reporting of adverse medical events, and appropriate, truthful and non-misleading labeling, advertising, and promotional materials, referred to as the general controls. Some Class I, also called Class I reserved, devices also require premarket clearance by the FDA through the 510(k) premarket notification process described below. Many Class I products are exempt from the premarket notification requirements.

Class II devices are those which are subject to the general controls and may require adherence to certain performance standards or other special controls (as specified by the FDA) and premarket clearance by the FDA. Premarket review and clearance by the FDA for these devices is accomplished through the 510(k) premarket notification procedure. For most Class II devices, the manufacturer must submit a premarket notification to the FDA demonstrating that the device is substantially equivalent to a legally marketed predicate device.

If the FDA agrees that the device is substantially equivalent, it will grant clearance to commercially market the device. By regulation, the FDA is required to complete its review of a 510(k) within 90 days of submission of the notification. Clearance may take longer as the Agency can request additional information about the device. For example, the FDA may require clinical data to make a determination regarding substantial equivalence. If the FDA determines that the device, or its intended use, is not substantially equivalent, the FDA will place the device, or the particular use of the device, into Class III, and the device sponsor must then fulfill much more rigorous premarketing requirements, known as premarket approval.

A Class III product is a product that has a new intended use or that uses advanced technology that is not substantially equivalent to a use or technology established in a legally marketed device, or for which there is not sufficient information to establish performance standards or special controls to provide reasonable assurance of the device s safety and effectiveness. Class III includes products for use in supporting or sustaining human life or for a use that is of substantial importance in preventing impairment of human health or presents a potential unreasonable risk of illness or injury. The safety and effectiveness of Class III devices cannot be reasonably assured solely by the general controls and the other requirements described above. Therefore, these devices almost always require clinical studies to demonstrate safety and effectiveness.

FDA approval of a premarket approval application is required before marketing a Class III product. The premarket approval application process is much more demanding than the 510(k) premarket notification process. A premarket approval application, which is intended to provide reasonable assurance that the device is safe and effective, must be supported by extensive data, including data from engineering studies, preclinical evaluations and human clinical trials and published research material. The premarket approval application must contain a full description of the device and its components, a full description of the methods, facilities and controls used for manufacturing and testing, and proposed labeling. Following receipt of a premarket approval application, once the FDA determines that the application is sufficiently complete to permit a substantive review, the FDA will formally

Table of Contents

accept the application for review. The FDA, by statute and by regulation, has 180 days to review a filed premarket approval application, although the review of an application more often occurs over a significantly longer period of time as there are typically multiple rounds of questions and requests for clarification. A maximum time of 360 days is allowed to respond to deficiencies.

In approving a premarket approval application or clearing a 510(k) notification, the FDA may also require some form of postmarket surveillance, whereby the manufacturer follows certain patient groups for a number of years and makes periodic reports to the FDA on the clinical status of those patients when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

When FDA approval of a device requires human clinical trials, and if the clinical trial presents a significant risk (as defined by the FDA) to human health, the device sponsor is required to file an investigational device exemption, or IDE, application with the FDA and obtain IDE approval prior to commencing the human clinical trial. If the clinical trial is considered a nonsignificant risk, IDE submission to the FDA is not required. Instead, only approval from the Institutional Review Board overseeing the clinical trial is required, although the study is still subject to FDA oversight under other provisions of the IDE regulation. Human clinical studies are generally required in connection with approval of Class III devices and to a much lesser extent for Class I and II devices. Clinical trials conducted abroad for FDA approval must comply with both local and FDA regulations and guidance.

Continuing Food and Drug Administration Regulation. After the FDA permits a device to enter commercial distribution, numerous regulatory requirements apply. These include:

- the registration and listing regulation, which requires manufacturers to register all manufacturing facilities and list all medical devices placed into commercial distribution;
- the Quality System Regulation, which requires manufacturers to follow detailed design, testing, control, documentation and other quality assurance procedures during the manufacturing process;
- labeling regulations that prescribe the FDA s general prohibition against promoting products for unapproved or off-label uses;
- the Medical Device Reporting regulation, which requires that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur;
- Regulations for the field correction and removal (recall) of medical devices that fail to conform to specifications and standards and that may pose a hazard to health;
- Device tracking requirements; and
- Postmarket surveillance requirements.

Failure to comply with the applicable U.S. medical device regulatory requirements could result in, among other things, warning letters, fines, injunctions, civil penalties, repairs, replacements, refunds, recalls or seizures of products, total or partial suspension of production, the FDA s refusal to grant future premarket clearances or approvals, withdrawals or suspensions of current product applications, and criminal prosecution.

Governmental Reimbursement. In the United States, a significant percentage of the patients who receive our IOLs are covered by the federal Medicare program. When a cataract extraction with IOL implantation is performed in an ambulatory surgical center, Medicare provides the ambulatory surgical center with a fixed facility fee that includes the cost of the IOL. After the CMS, awarded new technology intraocular lens status to our *Tecnis*® IOL in 2006, the reimbursement rate for *Tecnis*® IOLs implanted in ambulatory surgical centers increased an additional $50 until February 2011. When the procedure is performed in a hospital outpatient department, the hospital s reimbursement is based on a prospective

payment that includes payment for the IOL. The allowance is the same for all IOLs.

Effective January 1, 2008, Medicare established a new payment system for services performed in ambulatory surgery centers. This new system will be phased in over a four-year period, indexing ambulatory surgery center payments to payments established for like procedures performed in hospital outpatient departments. For 2008, ambulatory surgery center payments have effectively remained unchanged. At this time, it is not possible to determine the long-term effect of this new payment system on our revenues or financial condition. In addition, if implemented, price controls or other cost-containment measures could materially and adversely affect our revenues and financial condition.

Table of Contents

We cannot predict the likelihood or pace of any other significant legislative or regulatory action in these areas, nor can we predict whether or in what form health care legislation being formulated by various governments will be passed. Medicare reimbursement rates are subject to change at any time. We also cannot predict with precision what effect such governmental measures would have if they were ultimately enacted into law.

International Regulation. Internationally, the regulation of medical devices is also complex. In Europe, our products are subject to extensive regulatory requirements. The regulatory regime in the European Union for medical devices became mandatory in June 1998. It requires that medical devices may only be placed on the market if they do not compromise safety and health when properly installed, maintained and used in accordance with their intended purpose. National laws conforming to the European Union s legislation regulate our IOLs and eye care products under the medical devices regulatory system. Although the more variable national requirements under which medical devices were formerly regulated have been substantially replaced by the EU Medical Devices Directive, individual nations can still impose unique requirements that may require supplemental submissions. The European Union medical device laws require manufacturers to declare that their products conform to the essential regulatory requirements after which the products may be placed on the market bearing the CE Mark. Manufacturers quality systems for products in all but the lowest risk classification are also subject to certification and audit by an independent notified body. In Europe, particular emphasis is being placed on more sophisticated and faster procedures for the reporting of adverse events to the competent authorities.

In Japan, premarket approval and clinical studies are required, as is governmental pricing approval for medical devices. Clinical studies are subject to a stringent Good Clinical Practices standard. Approval time frames from the Japanese Ministry of Health, Labour and Welfare (MHLW) vary from simple notifications to review periods of one or more years, depending on the complexity and risk level of the device. In addition, importation into Japan of medical devices is subject to Good Import Practices regulations. As with any highly regulated market, significant changes in the regulatory environment could adversely affect future sales.

In many of the other foreign countries in which we market our products, we may be subject to regulations affecting, among other things:

- product standards and specifications;
- packaging requirements;
- labeling requirements;
- quality system requirements;
- import restrictions;
- tariff regulations;
- duties; and
- tax requirements.

Many of the regulations applicable to our devices and products in these countries are similar to those of the FDA. In some regions, the level of government regulation of medical devices is increasing, which can lengthen time to market and increase registration and approval costs. In many countries, the national health or social security organizations require our products to be qualified before they can be marketed with the benefit of reimbursement eligibility.

Fraud and Abuse. We are subject to various federal and state laws pertaining to health care fraud and abuse, including anti-kickback laws, physician self-referral laws, and false claims laws. Violations of these laws are punishable by criminal and/or civil sanctions, including, in some

instances, imprisonment and exclusion from participation in federal and state health care programs including Medicare, Medicaid, Veterans Administration (VA) health programs and TRICARE. Although we believe that our operations are in material compliance with such laws, and we strive to achieve and maintain compliance, we cannot provide complete assurance as these laws are far-reaching and their interpretation is subject to change. As a result, we could be required to alter one or more of our practices to remain in compliance with these laws. The occurrence of one or more violations of these laws could result in a material adverse effect on our financial condition and results of operations.

Table of Contents

Anti-Kickback Laws. Our operations are subject to federal and state anti-kickback laws. Provisions of the Social Security Act, commonly known as the Anti-Kickback Law, prohibit entities, such as our company, from knowingly and willfully offering, paying, soliciting or receiving any form of remuneration in return for, or to induce:

- the referral of persons eligible for benefits under a federal health care program, including Medicare, Medicaid, the VA health programs and TRICARE, or a state health program; or
- the recommendation, purchase, lease or order of items or services that are covered, in whole or in part, by a federal health care program or state health programs.

The Anti-Kickback Law may be violated when even one purpose, as opposed to a primary or sole purpose, of a payment is to induce referrals or other business. Federal regulations create a small number of safe harbors. Practices which meet all the criteria of an applicable safe harbor will not be deemed to violate the statute; practices that do not satisfy all elements of a safe harbor do not necessarily violate the statute, although such practices may be subject to scrutiny by enforcement agencies. We strive to comply with applicable safe harbors.

Violation of the Anti-Kickback Law is a felony, punishable by substantial fines and (for individuals) imprisonment. In addition, the Department of Health and Human Services may impose civil penalties and exclude violators from participation in federal or state health care programs (including Medicare, Medicaid, VA health programs, and TRICARE); if a manufacturer is excluded, its products are not eligible for reimbursement by these programs. Many states have adopted similar anti-kickback laws, which vary in scope and may extend to payments intended to induce the recommendation, purchase, or order of products reimbursed by private payors as well as federal or state health care programs.

Foreign Corrupt Practices Act. Our foreign operations are subject to the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws. These anti-bribery laws generally prohibit companies from making improper payments to non-U.S. government officials for the purposes of obtaining or retaining business. Our policies mandate compliance with these laws. Violation of these laws are punishable by civil monetary fines as well as severe criminal penalties, including fines or imprisonment.

Employee Relations

At December 31, 2008, we employed approximately 3,711 persons throughout the world, including approximately 1,192 in the United States. None of our U.S.-based employees are represented by unions. We consider our relations with our employees to be good.

Global Sales

Net sales in the United States were approximately $438.5 million, $458.7 million and $416.4 million for the years ended December 31, 2008, 2007 and 2006, respectively, or 37% of total net sales in 2008, and 42% of total net sales in 2007 and 2006, respectively. Our international sales represented approximately $746.5 million, $632.1 million and $581.1 million for the years ended December 31, 2008, 2007 and 2006, respectively, or 63% of total net sales in 2008, and 58% of total net sales in 2007 and 2006, respectively. Sales in Japan were approximately $195.2 million, $145.4 million and $138.7 million for the years ended December 31, 2008, 2007 and 2006, respectively. Our products are sold in over 60 countries. Sales are attributed to the country where the customer resides. Marketing activities are coordinated on a worldwide basis, and local management teams provide leadership and infrastructure for introduction of new products in the local markets. For additional geographic area information, see Note 14 of Notes to Consolidated Financial Statements.

Raw Materials

We use a diverse and broad range of raw materials in the design, development and manufacturing of our products. While we do fabricate or formulate some of our materials at our manufacturing facilities, we purchase most of the materials and components used in manufacturing of our products from external suppliers. In addition, we purchase some supplies from single sources for reasons of quality assurance, sole source availability, cost effectiveness or constraints resulting from regulatory requirements. Several of our materials are sole sourced, including the source of hyaluronic acid used in manufacturing our *Healon* family of products. However, we work

14

Table of Contents

closely with our suppliers to assure continuity of supply while maintaining high quality and reliability. Where we buy a material from one source and other sources are available, alternative supplier options are generally considered and identified, although we do not typically pursue regulatory qualification of alternative sources due to the strength of our existing supplier relationships and the time and expense associated with the regulatory process. A change in suppliers could require significant effort or investment by us in circumstances where the items supplied are integral to the performance of our products or incorporate unique technology.

Environmental Matters

Our facilities and operations are subject to federal, state and local environmental and occupational health and safety requirements of the United States and foreign countries, including those relating to discharges of substances to the air, water and land, the handling, storage and disposal of hazardous materials and wastes and the cleanup of properties affected by pollutants. We believe we are currently in material compliance with such requirements and do not currently anticipate any material adverse effect on our business or financial condition as a result of our efforts to comply with such requirements.

In the future, federal, state or local governments in the United States or foreign countries could enact new or more stringent laws or issue new or more stringent regulations concerning environmental and worker health and safety matters that could affect our operations. Also, in the future, contamination may be found to exist at our current or former facilities or off-site locations where we have sent wastes. We could be held liable for such newly-discovered contamination which could have a material adverse effect on our business or financial condition. In addition, changes in environmental and worker health and safety requirements could have a material effect on our business or financial condition.

Competition

The markets for our products are intensely competitive and are subject to significant technological change. Companies within the cataract and laser vision correction markets compete on technological leadership and innovation, quality and efficacy of products, relationships with eye care professionals and health care providers, breadth and depth of product offering and pricing. We believe we have the second largest cataract business on a global basis behind Alcon, Inc., a subsidiary of Nestle S.A. Other competitors in the cataract business include Bausch & Lomb, Staar Surgical, Hoya, Santen and Zeiss-Meditec.

We believe we have the world s largest laser vision correction business. Other competitors include Alcon, Bausch & Lomb, Zeiss-Meditec, Moria, Nidek, Wavelight and Ziemer. We believe our competitive position is enhanced by our large international distribution network, our focus on technology and customer relationships, our broad-based service capability and our product quality. Our ability to compete against larger companies may be impeded by having fewer resources to devote to research and development as well as sales and marketing.

Companies within the eye care market compete primarily on recommendations from eye care professionals, customer brand loyalty, product quality and pricing. We believe we have one of the top three largest contact lens care businesses on a global basis along with Alcon, Inc. and Bausch & Lomb. Other competitors include CIBA Vision Corporation, a unit of Novartis, and, within the Japan region, Rohto and Menicon. Our competitive position in the eye care business is enhanced by our strong presence outside the United States and our knowledge of these foreign markets, as well as technological advancement. Our larger competitors have more resources to devote to advertising and promotion, and this may negatively impact our competitive position.

Our competitors may develop technologies and products that are more effective or less costly than any of our current or future products or that could render our products obsolete or noncompetitive. Some of these competitors have substantially more resources and marketing capabilities than we do. Among other things, these consolidated companies can spread their research and development costs over much broader revenue bases than we can and may be able to better influence customer and distributor buying decisions. Our inability to produce and develop products that compete effectively against those of our competitors could result in a material reduction in sales.

Patents, Trademarks and Other Intellectual Property

Patents and other proprietary rights are important to the success of our business. We likewise utilize trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position. We protect our proprietary rights through a variety of methods, including confidentiality agreements and proprietary information agreements with vendors, employees, consultants and others who have access to our proprietary information.

Table of Contents

We have rights to over 1,500 granted and issued patents and over 1,300 pending patent applications relating to aspects of the technology incorporated in many of our products. The scope and duration of our proprietary protection varies throughout the world by jurisdiction and by individual product. In particular, patents for individual products extend for varying periods of time according to the date a patent application is filed, the date a patent is granted and the term of patent protection available in the jurisdiction granting the patent. Our proprietary protection often affords us the opportunity to enhance our position in the marketplace by precluding our competitors from using or otherwise exploiting our technology.

We believe trademark protection is particularly important to the maintenance of the recognized brand names under which we market our products. The scope and duration of our trademark protection varies throughout the world, with some countries protecting trademarks only as long as the mark is used, and others requiring registration of the mark and the payment of registration fees. We own or have rights to material trademarks or trade names that we use in conjunction with the sale of our products, which include, among others, *ActiveTrak®, AddedVue®, Advanced Medical Optics®, AMO® , AMO® Logo, AMO Advanced Medical Optics® Logo, Advanced CustomVue® , AMO iTEC Logo, AMO OptiBlue , AMO University® Logo, ARRAY®, Baerveldt®,* blink® *Tears, Blink-N-Clean®, Blink Contacts®, Blink GelTears®, ClariFlex®, COMPLETE® , COMPLETE® Logo, CustomMatch , CustomVue®, Easy Rub , ELLIPS Logo, Endosol® Fusion , Healon®, Healon5®, Healon D® , Healon GV®, iFS Logo, Intralase®, iLASIK®, Laminar®, OcuPure®, OptiBlue®, OptiEdge®, Oxysept®, Oxysept 1 Step , ReZoom®, Sensar®, Sovereign®, Stabileyes®, Star S4®, Star S4 IR®, Tecnis®, The Unfolder®, UltraCare®, Ultrazyme®, Veriflex®, Verisyse®, VisionKey®, VISX®, VISX University®, VSS Refractive , VRR®, WaveScan®, WaveScan WaveFront®, WavePrint®, WhiteStar® and WhiteStar Signature* . Generally, our products are marketed under one of these trademarks or brand names.

We are also a party to several license agreements relating to various aspects of our products; however, we do not believe the loss of any one license would materially affect our business.

We believe that our patents, trademarks and other proprietary rights are important to the development and conduct of our business and the marketing of our products. As a result, we aggressively protect our intellectual property. However, we do not believe that any one of our patents or trademarks is currently of material importance in relation to our overall sales.

Information Available on our Website

Our Internet address is www.amo-inc.com. We make available on our website, free of charge, our filings made with the SEC electronically, including those on Form 10-K, Form 10-Q, and Form 8-K, and any amendments to those filings. Copies are available as soon as reasonably practicable after we have filed or furnished these documents to the SEC (www.sec.gov). Our Code of Ethics, which applies to all employees, is available on our website. Our Code of Ethics is also available in print to any stockholder who requests it from our Investor Relations department, (714) 247-8348. Any changes to the Code of Ethics or waivers granted to our chief executive officer, chief financial officer or controller by our board of directors will be publicized on our website.

Item 1A. Risk Factors

You should carefully consider the following risks and other information. These risks and uncertainties are not the only ones we face. Others that we do not know about now, or that we do not now think are important, may also impair our business. The risks described in this section could cause our actual results to differ materially from those anticipated.

Risks Related To Our Proposed Merger with Abbott

We and Abbott may not meet the closing conditions which could result in failure of the acquisition of us by Abbott.

Abbott s tender offer remains conditioned upon, among other things, (1) the satisfaction of the minimum condition, which requires that the number of shares validly tendered and not properly withdrawn before the tender offer expires, together with the number of shares owned by Abbott and its affiliates must represent at least a

Table of Contents

majority of the outstanding shares of our common stock on a fully diluted basis and (2) since January 11, 2009, there not having occurred a Company Material Adverse Effect (as defined in the Merger Agreement). We and Abbott cannot predict whether and when these conditions will be satisfied. If for any reason the conditions above are not satisfied, Abbott will not be obligated to complete its acquisition of us.

If the proposed merger with Abbott is not completed, we will have incurred substantial costs that may adversely affect our financial results and operations and the market price of our common stock or the price of our other securities.

If the proposed merger with Abbott is not completed, the price of our common stock may decline to the extent that the current market price of our common stock reflects a market assumption that the proposed merger with Abbott will be completed. In addition, we have incurred and will incur substantial transaction costs and expenses in connection with the proposed merger with Abbott. These costs are primarily associated with the fees of our financial advisors, accountants and attorneys. In addition, we have diverted significant management resources in an effort to complete the proposed merger with Abbott and are subject to certain restrictions contained in the Merger Agreement on the conduct of our business. If the proposed merger with Abbott is not completed, we will have incurred significant costs for which we will have received little or no benefit. Also, if the proposed merger with Abbott is not completed under certain circumstances specified in the Merger Agreement, including acceptance of a third-party acquisition proposal, we may be required to pay to Abbott a termination fee of $98.5 million and/or expenses of up to $20 million. In addition, if the proposed merger with Abbott is not completed, we may experience negative reactions from the financial markets and our stockholders, other potential investors, customers, health care providers, suppliers and employees. Each of these factors may also adversely affect the trading price of our common stock and our financial results and operations.

If the proposed merger with Abbott is not completed, we may need to revisit our efforts to reduce debt and restructure our balance sheet.

Prior to the announcement of the merger, we were actively working to de-leverage our balance sheet. As a result of the proposed merger, we have not continued to pursue these strategies. If the merger is not completed, we may need to re-engage in these efforts. Also, if the merger is not completed, we may experience negative reactions from the financial markets, our stockholders, potential investors and bankers. As a result, strategies to reduce debt and restructure our balance sheet that were previously available to us may no longer be available, or if available, may not be available on favorable terms. Either of these outcomes could have a material adverse effect on our financial condition and liquidity.

The announcement of or consummation of the transactions described in the Merger Agreement may have a negative impact on our relationships with our employees.

As a result of the announcement of the tender offer and the other transactions contemplated by the Merger Agreement, or if the integration of the entities is not perceived favorably, we may lose a number of our employees, including our key employees, during the merger pre-closing period, which could have an adverse impact on our operations and sales revenues. The loss of any of our key employees could adversely affect our business and cause significant disruption in our operations. Additionally, the pending merger may have an adverse effect on retaining existing personnel or on our ability to hire replacement personnel.

Provisions of the Merger Agreement may deter alternative business combinations and could negatively impact our stock price or the price of other AMO securities if the Merger Agreement is terminated in certain circumstances.

The Merger Agreement prohibits us from initiating, soliciting, or knowingly taking any action to facilitate or encourage certain alternative takeover proposals with any third-party, subject to exceptions set forth in the Merger Agreement. The Merger Agreement also provides for the payment by us of a termination fee of $98.5 million (and up to an additional $20 million for Abbott's expenses) if the Merger Agreement is terminated in certain circumstances in connection with a competing third-party acquisition proposal. These provisions limit our ability to pursue offers from third parties that could result in greater value to our stockholders. The obligation to pay the termination fee may also discourage a third-party from pursuing an alternative acquisition proposal. If the proposed merger with Abbott is terminated and we determine to seek another business combination, we cannot assure our stockholders or other securities holders that we will be able to negotiate a transaction with another company on terms comparable to the terms of the Merger Agreement, or that we will avoid incurrence of any fees associated with the termination of the Merger Agreement. In the event the Merger Agreement is terminated, our stock price may decline.

Table of Contents

Health care provider and customer uncertainties related to the proposed acquisition by Abbott could adversely affect the business, revenues and gross margins of AMO.

In response to the announcement of the proposed merger with Abbott or due to possible uncertainty about the proposed merger with Abbott and integration of the entities, health care providers and patients could delay or defer use of our products or elect to switch to products produced by our competitors. In particular, prospective patients could be reluctant to accept our products due to uncertainty about the direction of the surviving company and its willingness to support existing products and development. To the extent that the proposed merger with Abbott creates uncertainty among a large group of patients and health care providers or organizations contemplating use of our products, our results of operations would be adversely affected. Accordingly, our quarterly revenues and net earnings or losses could be substantially below expectations of market analysts and a decline in our stock price could result.

Risks Relating to Our Business

We may not successfully make or integrate acquisitions or enter into strategic alliances.

As part of our business strategy, we intend to pursue selected acquisitions and strategic alliances and partnerships. We compete with other ophthalmic surgical product and eye care companies, among others, for these opportunities and we cannot assure you that we will be able to effect strategic alliances, partnerships or acquisitions on commercially reasonable terms or at all. Even if we do enter into these transactions, we may experience:

- delays in realizing the benefits we anticipate, or we may not realize the benefits we anticipate at all;
- difficulties in integrating any acquired companies and products into our existing business;
- attrition of key personnel from acquired businesses;
- costs or charges to expand the operations of these acquired entities or otherwise for which such investment may not provide an adequate return;
- difficulties or delays in obtaining regulatory approvals;
- the expenditure of significant and material monies to complete integration work for these acquired entities as well as significantly higher costs of integration than we anticipated; or
- unforeseen operating difficulties that require significant financial and managerial resources that would otherwise be available for the ongoing development or expansion of our existing operations.

Consummating these transactions could also result in the incurrence of additional debt and related interest expense, as well as unforeseen contingent liabilities, all of which could have a material adverse effect on our business, financial condition and results of operations. We may also issue additional equity in connection with these transactions, which may dilute our existing stockholders.

We conduct a significant amount of our sales and operations outside of the United States, which subjects us to additional business risks that may cause our profitability to decline.

Because we manufacture and sell a significant portion of our products in a number of foreign countries, our business is subject to risks associated with doing business internationally. In particular, our products are sold in over 60 countries, and most of our manufacturing facilities are located outside the continental United States, in Añasco, Puerto Rico; Alcobendas, Spain; Hangzhou, China; Uppsala, Sweden; and

Groningen, Netherlands. In 2008, on an historical basis, we derived approximately $746.5 million, or 63%, of our net sales, from sales of our products outside of the United States, including 16% of our net sales in Japan. We intend to continue to pursue growth opportunities in sales internationally, which could expose us to greater risks associated with international sales and operations. Our international operations are, and will continue to be, subject to a number of risks and potential costs, including:

- unexpected changes in foreign regulatory requirements;
- differing local product preferences and product requirements;
- fluctuations in foreign currency exchange rates;

Table of Contents

political and economic instability;

cultural differences;

changes in foreign medical reimbursement and coverage policies and programs;

diminished protection of intellectual property in some countries outside of the United States;

trade protection measures and import or export licensing requirements;

difficulty in staffing and managing foreign operations, where turnover tends to be higher;

difficulty in coordinating foreign management and aligning business practices;

difficulty in managing foreign operations in accordance with foreign laws as well as laws applicable to U.S. companies with foreign operations, such as the Foreign Corrupt Practices Act;

differing labor regulations; and

potentially negative consequences from changes in tax laws.

Any of these factors may, individually or as a group, have a material adverse effect on our business and results of operations.

As we expand our existing international operations, we may encounter new risks. 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 revenue and profitability.

We are exposed to foreign currency risks from our international operations that could adversely affect our financial results.

A significant portion of our sales and operating costs are, and from time to time a portion of our indebtedness may be, denominated in foreign currencies. We are therefore exposed to fluctuations in the exchange rates between the U.S. dollar and the currencies in which our foreign operations receive revenues and pay expenses, including debt service. Our consolidated financial results are denominated in U.S. dollars and therefore, during times of a strengthening U.S. dollar, our reported international sales and earnings will be reduced because the local currency will translate into fewer U.S. dollars. In addition, the assets and liabilities of our non-U.S. subsidiaries are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated into U.S. dollars at the weighted average exchange rate for the period. Translation adjustments arising from the use of differing exchange rates from period to period are included in Accumulated other comprehensive income (loss) in Stockholders equity. Gains and losses resulting from foreign currency fluctuations and remeasurements relating to foreign operations deemed to be operating in U.S. dollar functional currency are included in Other, net in our consolidated statements of operations. Accordingly, changes in currency exchange rates will cause our net earnings and stockholders equity to fluctuate. We use hedging methods on a regular basis to manage the foreign exchange risk. This has historically been accomplished through the use of options and forward contracts.

If we do not introduce new commercially successful products in a timely manner, our products may become obsolete over time, customers may not buy our products and our revenue and profitability may decline.

Demand for our products may change in ways we may not anticipate because of:

- evolving customer needs;
- the introduction of new products and technologies;
- evolving surgical practices; and
- evolving industry standards.

Without the timely introduction of new commercially successful products and enhancements, our products may become obsolete over time, in which case our sales and operating results would suffer. The success of our new product offerings will depend on several factors, including our ability to:

- properly identify and anticipate customer needs;
- commercialize new products in a cost-effective and timely manner;

Table of Contents

manufacture and deliver products in sufficient volumes on time;

obtain and maintain regulatory approval for such new products;

differentiate our offerings from competitors offerings;

achieve positive clinical outcomes;

satisfy the increased demands by health care payors, providers and patients for lower-cost procedures;

innovate and develop new materials, product designs and surgical techniques; and

provide adequate medical and/or consumer education relating to new products.

Moreover, innovations generally will require a substantial investment in research and development before we can determine the commercial viability of these innovations and we may not have the financial resources necessary to fund these innovations. In addition, even if we are able to successfully develop enhancements or new generations of our products, these enhancements or new generations of products may not produce revenue in excess of the costs of development and they may be quickly rendered obsolete by changing customer preferences or the introduction by our competitors of products embodying new technologies or features.

We rely on certain suppliers and manufacturers for raw materials and other products and are vulnerable to fluctuations in the availability and price of such products and services.

We purchase certain raw materials and other products from third-party suppliers and vendors, sometimes from limited sources. Our suppliers and vendors may not provide the raw materials or other products needed by us in the quantities requested, in a timely manner, or at a price we are willing to pay. In the event any of our third-party suppliers or vendors were to become unable or unwilling to continue to provide important raw materials and third-party products in the required volumes and quality levels or in a timely manner, or if regulations affecting raw materials such as animal-based products were to change, we would be required to identify and obtain acceptable replacement supply sources. We may not be able to obtain alternative suppliers and vendors on a timely basis, or at all, which could result in lost sales because of our inability to manufacture products containing such raw materials or deliver products we sell from certain suppliers. In addition, we also rely on certain manufacturers for some of our products. If we were unable to renew our third-party manufacturing agreements, or if the manufacturers were to cease manufacturing any of these products for us for any reason, we may not be able to find alternative manufacturers on terms favorable to us, in a timely manner, or at all. If any of these events should occur, our business, financial condition and results of operations could be materially adversely affected.

We generally manufacture our cataract and laser vision correction products at single sites, creating a potential for a material business interruption should any of these sites be affected by a natural disaster or plant shutdown.

We manufacture phacoemulsification, femtosecond and excimer laser systems in Milpitas, California. We manufacture our IOLs in Añasco, Puerto Rico and in significantly lower volumes in Groningen, Netherlands, and our viscoelastics in Uppsala, Sweden. If any of these facilities were affected by a natural disaster or plant shutdown, our supply of products could be interrupted. We may not be able to identify and validate alternative sources for the affected products in a timely manner, given the substantial regulatory requirements required for such validations. Any prolonged disruption in the operation of our manufacturing facilities or those of our third-party manufacturers could materially harm our business.

We face intense competition, and our failure to compete effectively could have a material adverse effect on our profitability and results of operations.

We face intense competition in the markets for our ophthalmic surgical and eye care products and these markets are subject to rapid and significant technological change. We have numerous competitors in the United States and abroad, including, among others, large companies such as Alcon, Inc., a publicly traded subsidiary of Nestle S.A.; Bausch & Lomb; CIBA Vision Corporation, a unit of Novartis, Zeiss-Meditech and Wavelight, among others. Many of our competitors have substantially more resources and a greater marketing scale than we do. We may not be able to sustain our current levels of profitability and growth as competitive pressures, including pricing pressure from competitors, increase. In addition, if we are unable to develop and produce or market our products to effectively compete against our competitors, our operating results will materially suffer. We also compete against a large number of providers of alternative vision correction solutions, some of which may have greater financial resources than us. New or different methods of vision correction are continually being introduced. Any of these competitive pressures could result in significantly decreased demand for our products.

Table of Contents

Because of our leading market position in the laser vision correction business, all of our competitors target our market share in order to grow their own revenues. We can give no assurance that we will be able to maintain or grow our existing market share and we may be required to incur considerable expenditures in order to maintain or increase that market share. Should our procedure market share decline, it would have a material adverse effect on our business, financial position and results of operations.

Trends in the contact lens care market may negatively impact our eye care business.

Our eye care business is impacted by trends in the contact lens care market such as more simplified disinfection systems and technological and medical advances in surgical techniques for the correction of vision impairment. Less expensive one-bottle chemical disinfection systems have gained popularity among soft contact lens wearers instead of peroxide-based lens care products. Moreover, the FDA and other regulatory bodies are considering more stringent testing requirements and compliance procedures. Also, the growing use and acceptance of daily, frequent replacement and extended wear contact lenses and laser correction procedures, along with the other factors above, could have the effect of continuing to reduce demand for lens care products generally. Our research and development, as well as marketing and sales plans may not be appropriate or sufficient to mitigate the effect of these trends on our eye care business and, as a result, our eye care business may suffer.

If we are unable to protect our intellectual property rights, our business and prospects may be harmed.

Our ability to compete effectively is dependent upon our ability to protect and preserve the proprietary aspects of the designs, processes, technologies and materials owned by, used by or licensed to us. We have numerous U.S. patents and corresponding foreign patents that are expected to expire by their own terms at various dates and have additional patent applications pending that may not result in issued patents. Our failure to secure these patents may limit our ability to protect the intellectual property rights that these applications were intended to cover. Although we have attempted to protect our proprietary property, technologies and processes both in the United States and in foreign countries through a combination of patent law, trade secrets and non-disclosure agreements, these may be insufficient. Competitors may be able to design around our patents to compete effectively with our products. We also may not be able to prevent third parties from using our technology without our authorization, breaching any non-disclosure agreements with us, or independently developing technology that is similar to ours. The use of our technology or similar technology by others could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our business.

If it became necessary for us to resort to litigation to protect these rights, any proceedings could be costly and we may not prevail. Further, we may not be able to obtain patents or other protections on our future innovations. In addition, because of the differences in foreign patent and other laws concerning proprietary rights, our products may not receive the same degree of protection in foreign countries as they would in the United States. We cannot assure you that:

- pending patent applications will result in issued patents;
- patents issued to or licensed by us will not be challenged by third parties; or
- our patents will be found to be valid or sufficiently broad to protect our technology or provide us with a competitive advantage.

We may be subject to intellectual property litigation and infringement claims, which could cause us to incur significant expenses or prevent us from selling our products.

There is a substantial amount of litigation over patent and other intellectual property rights in the medical device industry. The fact that we have patents issued to us for our products does not mean that we will always be able to successfully defend our patents and proprietary rights against challenges or claims of infringement by our competitors. A successful claim of patent or other intellectual property infringement or misappropriation against us could adversely affect our growth and profitability, in some cases materially. We cannot assure you that our products do not and will not infringe issued patents or other intellectual property rights of third parties. From time to time, in the ordinary course of business, we receive notices from third parties alleging infringement or misappropriation of the patent, trademark and other intellectual property rights of third parties by us or our consumers in connection with the use of our products. We may be unaware of intellectual property rights of others that may cover some of our technology. If someone claims that our products infringe their intellectual property rights, whether or not such claims are meritorious, any resulting litigation could be costly and time consuming and would divert the attention of our management and personnel from other business issues. The complexity of the

21

Table of Contents

technology involved and the uncertainty of intellectual property litigation increase these risks. Claims of intellectual property infringement also might require us to enter into costly royalty or license agreements (if available on acceptable terms or at all). We also may be subject to significant damages or an injunction preventing us from manufacturing, selling or using some or some aspect of our products. We may also need to redesign some of our products or processes to avoid future infringement liability. Any of these adverse consequences could have a material adverse effect on our business and profitability.

We could experience losses due to product liability claims, product recalls or corrections.

We have in the past been, and continue to be, subject to product liability claims. In connection with our spin-off from Allergan, we assumed the defense of any litigation involving claims related to our business and agreed to indemnify Allergan for all related losses, costs and expenses. As part of our risk management policy, we have obtained third-party product liability insurance coverage. Product liability claims against us may exceed the coverage limits of our insurance policies or cause us to record a self-insured loss. A product liability claim in excess of applicable insurance could have a material adverse effect on our business, financial condition and results of operations. Even if any product liability loss is covered by an insurance policy, these policies have substantial retentions or deductibles that provide that we will not receive insurance proceeds until the losses incurred exceed the amount of those retentions or deductibles. To the extent that any losses are below these retentions or deductibles, we will be responsible for paying these losses. The payment of retentions or deductibles for a significant amount of claims could have a material adverse effect on our business, financial condition and results of operations.

In addition, we are subject to medical device reporting regulations that require us to report to the FDA or similar governmental authorities in other countries if our products cause or contribute to a death or serious injury or our products malfunction in a way that would be reasonably likely to contribute to death or serious injury if the malfunction were to recur. The FDA and similar governmental authorities in other countries have the authority to require the recall of our products in the event of material deficiencies or defects in design or manufacturing. A government-mandated or voluntary recall by us could occur as a result of manufacturing errors or design defects, including defects in labeling. We have undertaken voluntary recalls of our products in the past.

Any product liability claim or recall would divert managerial and financial resources and could harm our reputation with customers. We cannot assure you that we will not have product liability claims or recalls in the future or that such claims or recalls would not have a material adverse effect on our business.

In November 2006 and May 2007, we commenced voluntary recalls of eye care solutions, which resulted in substantial product returns, a material decrease in eye care sales and increased costs associated with the recalls, the necessary corrective measures and protracted litigation. We cannot assure you that we have fully anticipated the impact of these recalls on our eye care business, including litigation exposure, or that we will be able to regain our prior market position. Our inability to regain market share reasonably close to our pre-recall levels would have a material affect on our business, financial condition, results of operations and cash flows.

We could experience losses and increased expenses due to legal proceedings.

We and certain of our subsidiaries are involved in various product liability, consumer, commercial, intellectual property, employment and securities litigations and claims and other legal proceedings that arise from time to time. Litigation is inherently unpredictable. Although we believe we have substantial defenses in these matters, we could in the future incur significant expenses and judgments or enter into settlements of claims that could have a material adverse effect on our results of operations and cash flows in any particular period.

If health care providers or our customers do not continue to support our products, our revenue and profitability may decline.

We market our products to numerous health care providers, including eye care professionals, hospitals, ambulatory surgical centers, corporate optometry and LASIK chains and group purchasing organizations. We have developed and strive to maintain appropriate relationships with members of each of these groups who assist in product research and development and advise us on how to satisfy the full range of surgeon and patient needs. The failure by these various groups to support our existing products and any new products we may introduce to retain the support of these various groups could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Table of Contents

We generally do not have long-term contracts with our customers, and our revenues with LASIK customers are concentrated.

We generally do not enter into long-term contracts with our customers. As a result, we are exposed to volatility in the market for our products and loss of our customers. A significant percentage of our LASIK sales are to corporate LASIK chains, particularly in the U.S., Japan and parts of Europe. We anticipate that these chains will continue to garner more of the LASIK procedure market in these areas. This concentration has the potential to affect our sales, should any one or more of these corporate chains move to a competitor s technology. The concentration has also negatively impacted our ability to collect payments when any one or more of these chains experience financial difficulties and may continue to do so in the future. As a result of these factors, we may not be able to maintain our level of profitability or collect cash that is due to us. If we are unable to market our products on terms we find acceptable or collect monies owed to us, our financial condition, results of operations and cash flows could suffer materially.

Our business is subject to extensive government regulation.

Our products and operations are subject to extensive regulation in the United States by the FDA and various other federal and state regulatory agencies, including with respect to regulatory clearance or approval of our products, clinical and pre-clinical testing, product marketing, sales and distributions, adverse event reporting, prohibitions on fraud and abuse, submission of false claims, kickbacks and rebates, and relationships with physicians and other referral sources. Additionally, in many foreign countries in which we market our products, we are subject to similar regulations. These laws and regulations are broad in scope and are subject to change. There may also be an absence of any guidance on certain practices. Consequently, our practices may be challenged or we could incur substantial costs associated with compliance or changing our practices. Our policies mandate compliance with these laws, but we cannot provide assurance that our policies will protect us from reckless or criminal acts by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our revenues, profitability and financial condition, and subject us to criminal or civil enforcement actions and penalties, including fines or imprisonment.

Before a new medical device or new use of, or claim for, or modification to an existing product can be marketed in the United States, a company may have to apply for and receive either 510(k) clearance or premarket approval. Either process can be expensive, lengthy and unpredictable. Also, the identification or increased frequency of safety or effectiveness concerns could result in product recall or withdrawal, rescission or withdrawal of our FDA clearance or premarket approval. Compliance with these regulations is expensive and time-consuming. We, our subcontractors, and third-party manufacturers are subject to periodic and unannounced inspections by FDA and governmental authorities to assess compliance. If we fail to comply, the FDA and state or other regulatory agencies have broad enforcement powers, including any of the following sanctions:

- warning letters, fines, injunctions, consent decrees, civil penalties and exclusion from participation in federal and state health care programs;
- repair, replacement, recall or seizure of our products;
- operating restrictions, partial suspension or total shutdown of production;
- refusal of our requests for 510(k) clearance or premarket approval of new products, new intended uses or modifications to existing products;
- rescission of 510(k) clearance or withdrawal of premarket approvals that have already been granted;
- suspension of sales to the Veterans Administration; and

criminal prosecution and penalties.

Product sales, introductions or modifications may be delayed or canceled as a result of U.S. or foreign regulatory processes, which could cause our sales to decline. Failure to obtain regulatory clearance or approvals of new products or product modifications we develop, any limitations imposed by regulatory agencies on new product uses or the costs of obtaining regulatory clearance or approvals could have a material adverse effect on our business, financial condition and results of operations.

We, our subcontractors, and third-party manufacturers are also subject to similar state requirements and licenses. We, our subcontractors, and third-party manufacturers must comply with extensive recordkeeping and

Table of Contents

reporting requirements and must make available our manufacturing facilities and records for unannounced and periodic inspections by governmental agencies, including FDA, state authorities and comparable agencies in other countries.

Health care initiatives and other cost-containment pressures could cause us to sell our products at lower prices, resulting in less revenue to us. In the United States, a significant percentage of the patients who receive our intraocular lenses are covered by the federal Medicare program. Changes in coverage or coding policies or reductions in Medicare reimbursement rates and the implementation of other price controls could adversely affect our revenues and financial condition. In addition, changes in existing regulatory requirements or adoption of new requirements could hurt our business, financial condition and results of operations.

The clinical trial process required to obtain regulatory approvals is costly and uncertain, and could result in delays in new product introductions or even an inability to release a product.

The clinical trials required to obtain regulatory approvals for some of our products are complex and expensive, and their outcomes are uncertain. We incur substantial expense for, and devote significant time to, clinical trials, but we cannot be certain that the trials will ever result in the commercial sale of a product. We may suffer significant setbacks in clinical trials, even after earlier clinical trials showed promising results. Any of our products may produce undesirable side effects that could cause us or regulatory authorities to interrupt, delay or halt clinical trials of a product candidate. We, the FDA, or another regulatory authority may suspend or terminate clinical trials at any time if they or we believe the trial participants face unacceptable health risks.

Our business is subject to environmental regulations.

Our facilities and operations are subject to federal, state and local environmental and occupational health and safety requirements of the United States and foreign countries, including those relating to discharges of substances to the air, water and land, the handling, storage and disposal of hazardous materials and wastes and the cleanup of properties affected by pollutants. Failure to maintain compliance with these regulations could have a material adverse effect on our business or financial condition.

In the future, federal, state or local governments in the United States or foreign countries could enact new or more stringent laws or issue new or more stringent regulations concerning environmental and worker health and safety matters that could affect our operations. Regulations limiting the use in medical devices of certain materials considered harmful to the environment could increase the cost and limit the availability of components that are critical to the safety and effectiveness of our devices. In addition, the research, development, procurement and product approvals associated with any required changes to components could result in unanticipated increases in product cost. Also, in the future, contamination may be found to exist at our current or former facilities or off-site locations where we have sent wastes. We could be held liable for such newly discovered contamination which could have a material adverse effect on our business or financial condition. In addition, changes in environmental and worker health and safety requirements could have a material adverse effect on our business or financial condition.

If we fail to attract, hire and retain qualified personnel, we may not be able to design, develop, market or sell our products or successfully manage our business.

Our ability to attract new customers, retain existing customers and pursue our strategic objectives depends on the continued services of our current management, sales, product development and technical personnel and our ability to identify, attract, train and retain similar personnel. Competition for top management personnel is intense and we may not be able to recruit and retain the personnel we need. The loss of any one of our management personnel, or our inability to identify, attract, retain and integrate additional qualified management personnel, could make it difficult for us to manage our business successfully and pursue our strategic objectives. Similarly, competition for skilled sales, product development and technical personnel is intense and we may not be able to recruit and retain the personnel we need. The loss of services of a number of key sales, product development and technical personnel, or our inability to hire new personnel with the requisite skills, could restrict our ability to develop new products or enhance existing products in a timely manner, sell products to our customers or manage our business effectively.

We may not be able to hire or retain qualified personnel if we are unable to offer competitive salaries and benefits. If our stock does not perform well, we may have to increase our salaries and benefits, which would increase our expenses and reduce our profitability.

Table of Contents

We may be required to satisfy certain indemnification obligations to Allergan, and we may not be able to collect on indemnification rights from Allergan.

Under the terms of our contribution and distribution agreement with Allergan, we and Allergan have each agreed to indemnify each other from and after our spin-off with respect to the debt, liabilities and obligations retained by our respective companies. These indemnification obligations could be significant. The ability to satisfy these indemnities, if called upon to do so, will depend upon the future financial strength of each of our respective companies. We cannot determine whether we will have to indemnify Allergan for any substantial obligations, and we may not have control over the settlement of certain claims and lawsuits that may require partial indemnification by us. We also cannot assure you that, if Allergan is required to indemnify us for any substantial obligations, Allergan will have the ability to satisfy those obligations.

If laser vision correction is not broadly accepted by both doctors and patients, our business, financial position and results of operations would be materially and adversely impacted.

Our business depends upon broad market acceptance of laser vision correction by both doctors and patients in the United States and key international markets. Our profitability and growth will be largely dependent on increasing levels of market acceptance and procedure growth, especially with regard to our higher-priced *CustomVue* procedure. Potential complications and side effects of laser vision correction include: post-operative discomfort, corneal haze (an increase in the light scattering properties of the cornea) during healing, glare/halos (undesirable visual sensations produced by bright lights), decreases in contrast sensitivity, temporary increases in intraocular pressure in reaction to procedure medication, modest fluctuations in refractive capabilities during healing, modest decrease in best corrected vision (i.e., with corrective eyewear), unintended over- or under-corrections, regression of effect, disorders of corneal healing, corneal scars, corneal ulcers, and induced astigmatism (which may result in blurred or double vision and/or shadow images). In addition to the potential side effects and complications associated with LASIK generally, some LASIK surgeons have observed incidents of transient light sensitivity with use of a femtosecond laser to create a flap, although this has affected only a small percentage of patients and appears to resolve quickly with treatment. Some consumers may choose not to undergo laser vision correction because of these complications or more general concerns relating to its safety and efficacy or a resistance to surgery in general. Alternatively, some consumers may elect to delay undergoing laser vision correction surgery because they believe improved technology or methods of treatment will be available in the near future. Should either the ophthalmic community or the general population turn away from laser vision correction as an alternative to existing methods of treating refractive vision disorders, or if future technologies replace laser vision correction, these developments could delay or prevent market acceptance of laser vision correction, which could have a material adverse effect on our business, financial position, results of operations and cash flows.

The possibility of long-term side effects and adverse publicity regarding laser correction surgery could seriously harm our business.

Compared with medical devices such as intraocular lenses, there is less long-term follow up experience with devices like our *IntraLase FS* laser and *VISX* excimer laser systems. Consequently there are no long-term follow up data that might reveal unknown side effects or complications associated specifically with this technique. The possibility of unfavorable side effects, and any concomitant adverse publicity, could seriously harm our business. Any future reported adverse outcomes or pattern of side effects involving the use of our lasers specifically, or with respect to LASIK procedures generally, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Adoption of our femtosecond laser product offering may be slower than anticipated.

LASIK surgeons may adopt our femtosecond laser technology at a slower rate than we have anticipated, unless they determine, based on experience, clinical data and studies and published journal articles, including peer-review articles, that our product offering provides significant benefits or an attractive alternative over the traditional method of creating the corneal flap using the microkeratome. In order for the adoption rate of our technology to meet our expectations, patients must also continue to be willing to pay for LASIK surgery using our femtosecond product offering despite its being more expensive than LASIK surgery with the microkeratome. LASIK surgeons typically receive more income per eye when using our product offering instead of the traditional microkeratome.

Table of Contents

Measures we take to ensure collection of laser per procedure charges may be inadequate.

Generating per procedure revenues from our installed base of femtosecond and excimer lasers is a key aspect of our business. We generally charge our customers per procedure fees for each eye treated. For the femtosecond laser, this fee is inclusive of a disposable patient interface, which is intended to be used on a single eye and discarded. We typically charge our customers procedure fees based on our shipments to them of per procedure disposable interfaces. We believe that a small percentage of our customers, in an effort to avoid procedure fees, have in the past used a single patient interface to treat multiple eyes. For the excimer laser, our customers may devise means to avoid the need for treatment cards. We have multiple features and measures to detect and address these practices to avoid per procedure fees. If these practices with respect to our excimer or femtosecond laser products (or other fee avoidance practices such as counterfeiting) were to continue or to proliferate, it could have a material adverse effect on our business.

While we devote significant resources to research and development, our research and development may not lead to new products that achieve commercial success.

Our research and development process is expensive, prolonged, and entails considerable uncertainty. Because of 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. The products currently in our development pipeline may not be approved by regulatory entities and may not be commercially successful, and our current and planned products could be surpassed by more effective or advanced products.

Any failure by third-party financing entities to satisfy their obligations to us would negatively impact our financial condition.

We have relationships with third-party financing entities that purchase our products directly and subsequently lease and/or sell these products to end-user customers, or provide financing directly to customers who purchase products directly from us. Should any third-party financing entity or entities fail or refuse to pay us in a timely manner or at all, it could negatively affect our cash flows and could have a material adverse effect on our business, financial position, results of operations and cash flows.

If any of our employees, consultants or others breach their proprietary information agreements, our competitive position could be harmed.

We protect our proprietary technology, in part, through proprietary information and inventions agreements with employees, consultants and other parties. These agreements with employees and consultants generally contain standard provisions requiring those individuals to assign to us, without additional consideration, inventions conceived or reduced to practice by them while employed or retained by us, subject to customary exceptions. If any of our employees, consultants or others breach these agreements, our competitors may learn of our trade secrets.

General economic conditions have had, and may continue to have, a negative impact on our business, financial position, and results of operations.

Because laser vision correction is not subject to reimbursement from third-party payors such as insurance companies or government programs, the cost of laser vision correction is typically borne by individuals directly. The global economic crisis experienced in 2008 has caused, and we expect it to continue to cause, individuals to be less willing to incur the procedure cost associated with laser vision correction, until the economy improves. This decline in economic conditions, especially in the United States and Europe, has resulted in a decline in the number of laser vision correction procedures performed. Excimer and femtosecond laser system sales have also declined, and may continue to decline, until economic conditions begin to recover. Some of our customers, in particular our corporate LASIK chain customers, have experienced financial difficulties as a result of the economic weakness and its effect on the refractive industry. As a result, we may not be able to maintain our level of profitability or collect cash that is due to us from these customers. Lower procedure and system sale revenues in our Refractive business, as well as an inability to collect on accounts receivable, could have a material adverse effect on our business and our ability to generate cash flow from operations, which in turn could impact our ability to reduce debt and comply with our debt covenants under our senior credit facility.

Table of Contents

Risks Relating to Our Indebtedness and Our Common Stock

We have a significant amount of debt. Our substantial indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under our debt.

We have a significant amount of debt and substantial debt service requirements. As of December 31, 2008, we had approximately $1.4 billion of outstanding debt. Our revolving line of credit included outstanding cash borrowings of $100.0 million and commitments to support letters of credit totaling $8.4 million issued on our behalf for normal operating purposes which resulted in an available balance of $191.6 million.

This level of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under our outstanding debt;
- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable and/or limit access to available borrowing capacity under our credit facilities, which we use to fund our daily operations, being immediately terminated;
- reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our senior credit facility;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the above-listed factors could have a material adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and our other debt.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash flow depends on many factors beyond our control.

Our ability to meet our payment and other obligations under our debt depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure debt holders that our business will generate cash flow from operations, or that future borrowings will be available to us under our senior credit facility (the Credit Facility) or otherwise, in an amount sufficient to enable us to meet our payment obligations under our debt and to fund other liquidity needs. We made an irrevocable election to satisfy in cash our conversion obligation with respect to the principal amount of any of our 2 1/2% Convertible Senior Subordinated Notes due 2024 (2 1/2% Notes) converted after December 15, 2004, with any remaining amount of the conversion obligation to be satisfied in shares of our common stock, in each case, calculated as set forth in the indenture governing the 2 1/2% Notes. In addition, because we made this election, the indenture provides that we must satisfy in cash our obligations to repurchase any 2 1/2% Notes that holders put to us on January 15, 2010, July 15, 2014 and July 15, 2019.

If the 2 1/2% Notes become convertible pursuant to their terms and the holders elect to convert or if holders elect to put their notes to us on the specified repurchase dates, we may not have sufficient cash to satisfy our obligations. In addition, our 1.375% Convertible Senior Subordinated Notes due 2025 (1.375% Notes) and our 3.25% Convertible Senior Subordinated Notes due 2026 (3.25% Notes), contain similar provisions. We may be unable to repurchase the notes for cash when required by the holders, including following a fundamental change, or to pay the portion of

the conversion value upon conversion of any notes by the holders. Our repurchase of any such notes may be prohibited by our other debt instruments, which could cause defaults and cross-defaults under our other debt agreements. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the notes and our other debt and our liquidity and financial position could be materially adversely affected.

Table of Contents

On January 27, 2009, we commenced a cash tender offer for the outstanding 7 1/2% Senior Subordinated Notes due 2017 (7 1/2% Notes) and a related consent to amend the indenture governing the 7 1/2% Notes (Debt Tender). Under the Merger Agreement, Abbott has agreed that, if a majority of the outstanding shares of our common stock are tendered in the merger, it will (i) advance us cash or cash equivalents, or (ii) provide access to committed or available credit facilities or other borrowings or (iii) otherwise fund in such combination as Abbott may determine, in each case on terms and conditions no less favorable to us than the existing terms of our Credit Facility, dated as of April 2, 2007, as amended, amounts sufficient to enable us to comply with our obligations in connection with the Debt Tender as well as our obligations under our Credit Facility and the indentures governing the 7 1/2% Notes, the 2 1/2% Notes, the 1.375% Notes and the 3.25% Notes, and pay any and all fees and expenses, including prepayment penalties, required in connection with the foregoing.

Some of our debt agreements contain covenant restrictions that may limit our ability to operate our business.

The agreements governing our Credit Facility contain covenant restrictions that limit our ability to operate our business, including restrictions on our ability to:

- incur additional debt or issue guarantees;
- create liens;
- make certain investments, including acquisitions;
- enter into transactions with our affiliates;
- sell certain assets;
- redeem capital stock or make other restricted payments;
- declare or pay dividends or make other distributions to stockholders; and
- consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis.

Our Credit Facility requires us to maintain specific leverage, fixed charge coverage and interest coverage ratios. Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. Our failure to comply with these covenant obligations could prevent us from borrowing additional money under the Credit Facility and could result in a default under it. If a default occurs under any of our senior indebtedness, the relevant lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable and proceed against substantially all of our assets, which will serve as collateral securing the indebtedness. Moreover, if the lenders under the Credit Facility or other agreement in default were to accelerate the indebtedness outstanding under that Credit Facility, it could result in a default under other indebtedness. If all or any part of our indebtedness were to be accelerated, or if we were prevented from accessing available borrowing capacity, we may not have or be able to obtain sufficient funds to repay it and/or obtain sufficient funds to run our daily operations. In addition, we may incur other indebtedness in the future that may contain financial or other covenants that are more restrictive than those contained in our current indentures.

As a result of these covenants, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us. In addition, our failure to comply with these covenants could result in a default under our debt, which could permit the holders to accelerate such debt. If any of our debt is accelerated, we may not have sufficient funds available to repay such debt. As of December 31, 2008, we were in compliance with our financial and other covenants.

Despite our and our subsidiaries current levels of indebtedness, we may incur substantially more debt, which could further exacerbate the risks associated with our substantial indebtedness.

Although certain of our debt agreements contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Also, these restrictions do not prevent us from incurring obligations that do not constitute indebtedness as defined in the relevant agreement. If new debt is added to our current debt levels, the related risks that we now face could intensify.

Table of Contents

Our stock price may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly variations in our operating results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements of innovations, new products, strategic developments, significant contracts, acquisitions and other material events by us or our competitors;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity-related securities;
- changes in general conditions in our industry and in the economy, the financial markets and the domestic or international political situation;
- developments or disputes (including lawsuits) concerning proprietary rights or other legal matters;
- developments in the insurance market, which may limit the amount of insurance coverage available to us;
- recalls or significant quality issues;
- departures of key personnel; and
- regulatory considerations.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, regardless of our operating results.

Our stockholder rights plan, amended and restated certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it difficult for a third-party to acquire our company.

We have a stockholder rights plan that may have the effect of discouraging unsolicited takeover proposals. The rights issued under the stockholder rights plan would cause substantial dilution to a person or group that attempts to acquire us on terms not approved in advance by our board of directors. In addition, Delaware corporate law and our amended and restated certificate of incorporation and bylaws contain provisions that could delay, deter or prevent a change in control of our company or our management. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions without the concurrence of our management or

board of directors. These provisions:

- authorize our board of directors to issue blank check preferred stock, which is preferred stock that can be created and issued by our board of directors, without stockholder approval, with rights senior to those of common stock;
- provide for a staggered board of directors and three-year terms for directors, so that no more than one-third of our directors could be replaced at any annual meeting;
- provide that directors may be removed only for cause;
- provide that stockholder action may be taken only at a special or regular meeting and not by written consent;
- provide for super-majority voting requirements for some provisions of our charter; and
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting.

We are also subject to anti-takeover provisions under Delaware law, which could also delay or prevent a change of control. Together, these provisions of our amended and restated certificate of incorporation and bylaws,

Table of Contents

Delaware law and our stockholder rights plan may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices of our common stock and, possibly and also could limit the price that investors are willing to pay in the future for shares of our common stock.

Item 1B. Unresolved Staff Comments

We believe there are no material unresolved written comments from the Commission.

Item 2. Properties

Our principal executive offices and research facilities are located in Santa Ana, California, in a facility subleased by us through July 2015. We also have an administrative, research and development and manufacturing facility in Milpitas, California, the lease for which expires in June 2017. The Milpitas site is new and is a relocation from our previously existing operations in Santa Clara, California and Irvine, California. The lease for the Santa Clara facility expired in May 2008. We have a customer service location in Irvine, California, with a lease through June 2009 and a satellite office in Santa Ana, California with a lease that expires in June 2009. In addition, we have a vacated manufacturing and research and development location in Irvine, California with a lease through August 2015 (this lease was inherited through the acquisition of IntraLase in 2007). We have closed this facility and moved operations to other AMO facilities and plan on subletting the space.

We have an administrative, research and development, and manufacturing facility through the acquisition of WaveFront Sciences, Inc. (WFSI) in Albuquerque, New Mexico, with a lease through September 2009. We conduct our global operations in facilities that we own or lease. Material facilities include administrative facilities in Australia, Canada, France, Germany, Hong Kong, Singapore, Ireland, Italy, Spain and the United Kingdom. We also have facilities in Japan used for administration, sales and research and development and for distribution and warehousing. We lease all of these facilities. In addition, we operate five manufacturing facilities: one in Añasco, Puerto Rico, where we lease the land and the facility, one in Alcobendas, Spain, where we own the land and the facility, one in Hangzhou, China, where we own the facility but lease the land, one in Uppsala, Sweden, where we own the land and the facility, and one in Groningen, Netherlands, where we own the land and the facility. We believe these facilities are adequate for the current needs of our business.

Item 3. Legal Proceedings

On January 12, 13 and 15, and February 4, 2009, four purported class action complaints were filed by James Groen, Edward Butler, Maria Palafox and Eric Smith (collectively the Butler cases), respectively, in the California Superior Court for Orange County on behalf of owners of our securities. The cases were consolidated before a single judge. The Butler cases alleged, among other things, that the price offered by Abbott for AMO shares is inadequate and that AMO and its directors breached their fiduciary duties to stockholders. On February 14, 2009, the parties to the Butler cases executed a memorandum of understanding reflecting their agreement to settle the class claims asserted in the cases. The memorandum calls for, among other things, (i) AMO to provide supplemental disclosures in the Schedule 14D-9 filed on January 27, 2009; (ii) AMO, Purchaser and Abbott to modify the Merger Agreement; and (iii) the parties to submit documents necessary to obtain the prompt approval by the California Superior Court of the settlement. The supplemental disclosures were made and the Merger Agreement amended on February 17, 2009. The settlement is contingent upon, among other things, consummation of the merger and approval by the Court.

As of December 31, 2008, we have been served or are aware that we have been named as a defendant in approximately 175 product liability lawsuits pending in various state and federal courts within the U.S. as well as certain jurisdictions outside the U.S. in relation to the May 25, 2007 recall of *Complete MoisturePlus* Multi-Purpose Solution (2007 Recall). These suits involve allegations of personal injury to 201 consumers. Of these 175 cases, 160 have been filed in various U.S. courts, 14 in Canada and one outside North America. None of the U.S. personal injury actions have been filed as purported class actions; however, 7 of the Canadian personal injury matters seek class action status. In addition to personal injury suits, 3 U.S. and 7 Canadian matters have been filed as purported class actions by uninjured consumers seeking reimbursement for discarded product pursuant to various consumer protection statutes.

These cases involve complex medical and scientific issues relating to both liability and damages. Moreover, most of the plaintiffs seek unspecified damages. Because of this, and because these types of suits are inherently unpredictable, we are unable at this time to predict the outcome of these matters. We intend to vigorously defend ourselves in these matters; however, litigation may be both time-consuming and disruptive to our operations and

30

Table of Contents

cause significant expense and diversion of management attention, regardless of the merits of the cases. In recognition of these considerations, we could enter into settlements or incur judgments that, individually or in the aggregate, could have a material adverse impact on our financial condition or results of operations in any such period.

While we are involved from time to time in litigation arising in the ordinary course of business, including product liability claims, we are not currently aware of any other actions against us or Allergan relating to the optical medical device business that we believe would have a material adverse effect on our business, financial condition, results of operations or cash flows. We may be subject to future litigation and infringement claims, which could cause us to incur significant expenses or prevent us from selling our products. We operate in an industry susceptible to significant product liability claims. Product liability claims may be asserted against us in the future arising out of the 2007 Recall and/or events not known to us at the present time. Under the terms of the contribution and distribution agreement affecting our spin-off from Allergan, Allergan agreed to assume responsibility for, and to indemnify us against, all current and future litigation relating to its retained businesses and we agreed to assume responsibility for, and to indemnify Allergan against, all current and future litigation related to the optical medical device business.

Item 4. Submission of Matters to a Vote of Security Holders

On January 27, 2009, we commenced a cash tender offer for our outstanding 7 1/2% Notes and a related consent solicitation to amend the indenture governing the 7 1/2% Notes. The principal purposes of the cash tender offer and the related consent solicitation are to acquire all of the outstanding 7 1/2% Notes, to eliminate substantially all of the restrictive covenants (other than, among other covenants, the covenant to pay interest and premium, if any, on, and principal of, the 7 1/2% Notes when due), certain events of default and substantially all of the restrictions on our ability to merge or consolidate contained in the 7 1/2% Notes and the indenture governing the 7 1/2% Notes, and to waive any and all defaults resulting from the consummation of the transactions contemplated by the Merger Agreement.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Dividends. We have never declared or paid any cash dividends on our common stock or any of our securities. We do not expect to pay cash dividends on our capital stock in the foreseeable future. We intend to retain our future earnings to continue to fund the development and growth of our business as well as repay long-term debt. In addition, our amended and restated Credit Facility prohibits us from paying cash dividends.

Market Information. The following table shows the quarterly closing price range of our common stock during the periods listed.

	2008		2007	
Calendar Quarter	**Low**	**High**	**Low**	**High**
First	$ 18.83	$ 24.09	$ 33.99	$ 38.97
Second	19.21	24.22	33.48	42.90
Third	17.20	23.31	26.95	35.96
Fourth	4.00	17.78	23.82	32.05

Our common stock is listed on the New York Stock Exchange and is traded under the symbol EYE. The closing price of our common stock was $21.92 on February 11, 2009.

The approximate number of stockholders of record was 4,538 as of February 11, 2009.

Table of Contents

The following sets forth shares purchased from employees to pay taxes related to our equity incentive plan:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased(1)	(b) Average Price Paid per Share (or unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
September 27, 2008 to October 31, 2008	1,137	$ 16.57		
November 1, 2008 to November 28, 2008	4,759	$ 6.43		
November 29, 2008 to December 31, 2008	17,714	$ 6.41		
Total	23,610	$ 6.91		

(1) Represents shares purchased from employees to pay taxes related to an employee benefit plan.

Table of Contents

Item 6. Selected Financial Data

The following table sets forth selected financial data as of and for each of the years in the five-year period ended December 31, 2008, which has been derived from our audited consolidated financial statements.

	For the Year Ended December 31,				
	2008	2007 (a)	2006 (b)	2005 (c)	2004 (d)
	(in thousands, except per share data)				
Statement of Operations:					
Net sales	$ 1,185,035	$ 1,090,846	$ 997,496	$ 920,673	$ 742,099
Cost of sales	468,545	474,974	379,325	353,325	306,164
Gross profit	716,490	615,872	618,171	567,348	435,935
Selling, general and administrative	497,954	547,112	404,802	396,599	329,197
Research and development	75,931	81,832	66,099	61,646	45,616
In-process research and development		86,980		490,750	28,100
Business repositioning			46,417	29,680	
Restructuring charges	45,844				
Goodwill and intangible asset impairment	72,556				
Net gain on legal contingencies	(20,492)		(96,896)		
Operating income (loss)	44,697	(100,052)	197,749	(411,327)	33,022
Interest expense	77,447	70,536	30,272	29,332	26,933
Unrealized (gain) loss on derivative instruments	(5,782)	6,127	1,290	(2,563)	403
(Gain) loss due to early retirement of Convertible Senior Subordinated Notes	(110,384)		18,783	1,885	116,282
Gain on sale of investments	(3,371)				
Other, net	11,728	3,238	2,588	316	10,620
Earnings (loss) before income taxes	75,059	(179,953)	144,816	(440,297)	(121,216)
Provision for income taxes	14,037	12,996	65,345	12,900	8,154
Net earnings (loss)	$ 61,022	$ (192,949)	$ 79,471	$ (453,197)	$ (129,370)
Basic earnings (loss) per share	$ 1.00	$ (3.22)	$ 1.25	$ (8.28)	$ (3.89)
Diluted earnings (loss) per share	$ 0.97	$ (3.22)	$ 1.21	$ (8.28)	$ (3.89)

(a) Includes results of the acquired IntraLase business since April 2, 2007 (date of acquisition). In 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109.

(b) In 2006, we adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment.

(c) Includes results of the acquired VISX business since May 27, 2005 (date of acquisition).

(d) Includes results of the acquired Pfizer Inc. Surgical Ophthalmic Business since June 26, 2004 (date of acquisition).

	As of December 31,				
	2008	2007	2006	2005	2004
	(in thousands)				
Balance Sheet Data:					
Cash and equivalents	$ 50,706	$ 34,525	$ 34,522	$ 40,826	$ 49,455
Current assets	524,193	523,111	478,143	479,005	376,825

Total assets	2,532,567	2,748,336	2,013,897	1,980,722	1,076,534
Current liabilities	349,865	342,594	217,453	260,116	193,923
Long term debt, net of current portion and short-term borrowings	1,293,777	1,543,230	851,105	500,000	550,643

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis presents the factors that had a material effect on AMO s results of operations and cash flows during each of the three years in the period ended December 31, 2008, and the Company s financial position at that date. Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include but are not limited to those discussed in the section entitled Risk Factors. This discussion and analysis should be read in conjunction with the historical consolidated financial statements of AMO and related notes thereto included elsewhere in this Form 10-K.

Overview

We are a global leader in the development, manufacture and marketing of medical devices for the eye. Our reportable segments are represented by our three strategic business units: cataract, refractive and eye care. Our cataract business focuses on the four key products required for cataract surgery monofocal intraocular lenses (monofocal IOLs), implantation systems, phacoemulsification systems and viscoelastics. Our refractive business markets excimer and femtosecond laser systems, diagnostic devices, excimer laser treatment cards and femtosecond laser patient interfaces for use in laser eye surgery and refractive implants. Our eye care business provides a full range of contact lens care products for use with most types of contact lenses. These products include single-bottle, multi-purpose cleaning and disinfecting solutions, hydrogen peroxide-based disinfecting solutions, daily cleaners, enzymatic cleaners and contact lens rewetting drops. In 2008, we also introduced eye drops designed to treat the symptoms of dry eye.

We have operations in approximately 27 countries and sell our products in approximately 60 countries in the following four regions:

- Americas (North and South America);
- Europe, Africa and Middle East;
- Japan; and
- Asia Pacific (excluding Japan, but including Australia and New Zealand).

Abbott Merger

On January 11, 2009, we entered into the Merger Agreement with Abbott and Rainforest Acquisition Inc., a wholly owned subsidiary of Abbott. Subject to the terms and conditions of the Merger Agreement, on January 27, 2009, Purchaser commenced a tender offer to purchase all of our outstanding shares of common stock, par value $0.01, including the associated preferred stock purchase rights, at a purchase price of $22.00 per share, net to the holder in cash, without interest. The consummation of the tender offer will be conditioned on the tender of a majority of the outstanding shares of our common stock on a fully diluted basis and other conditions that are specified in the offer documents. Following completion of the tender offer and, if required, receipt of stockholder approval, we expect to consummate a merger in which the remaining Company stockholders will receive the same cash price per share as paid in the tender offer.

Restructuring Activities

After our acquisition of IntraLase Corp. in the second quarter of 2007, we continued femtosecond laser manufacturing operations in Irvine, California (Irvine Plant). As part of the overall integration of IntraLase, in December 2007, we committed to a plan to relocate the femtosecond laser manufacturing operations from the Irvine Plant to our excimer laser and phacoemulsification manufacturing facility in Milpitas, California (Milpitas Plant), in order to consolidate equipment manufacturing in one location and to maximize opportunities to leverage core strengths. We completed this relocation during 2008. We also moved the assembly of IntraLase disposable patient interfaces from the Irvine Plant to our facility in Puerto Rico in order to obtain additional synergies.

As a continuation of our commitment to further enhance our global competitiveness, operating leverage and cash flow, our board of directors, in February 2008, approved an additional plan to reduce our fixed costs. The additional plan included a net workforce reduction of approximately 150 positions, or about 4% of our global workforce. In addition, we consolidated certain operations, including the relocation of all

non-manufacturing related activities at the Irvine Plant, to improve our overall facility utilization. We completed these activities during 2008.

Table of Contents

These plans included 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 also resulted 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.

In November 2008, our board of directors committed to an additional plan to reduce its fixed costs. This commitment expands on the plan first committed to by us in December 2007, which was supplemented by action of the board of directors in February 2008.

The amended plan expansion approved by the board of directors in November 2008 includes a net workforce reduction of approximately 190 positions, or about 5% of the company s global workforce. In addition to workforce reductions, this additional plan includes certain facilities-related costs.

We currently expect to complete these activities in 2009 and estimate the total pre-tax charges resulting from these plans to be in the range of $59 million to $77 million, the majority of which are expected to be cash expenditures. We have recognized the following costs associated with the restructuring plans (in thousands):

	Year Ended December 31, 2008
Costs included in cost of sales:	
Facilities related and other costs	$ 4,721
Termination of redundant supplier contracts	166
Incremental costs for transition and start-up activities at the Milpitas Plant	803
	5,690
Costs included in selling, general and administrative expenses:	
Accelerated depreciation relating to the restructuring	3,678
Costs included in restructuring charges:	
Severance, retention bonuses, employee relocation and other one-time termination benefits	41,977
Facilities related and other costs	2,411
Travel and relocation	1,456
	45,844
Total	$ 55,212

Cumulative charges from plan inception through December 31, 2008 were $55.6 million. Expected annualized cost savings from these restructuring actions, once completed, are expected to range from $22 million to $31 million. Actual cost savings could be significantly different from the estimated range if any unforeseen events or changes occur.

IntraLase Acquisition

On April 2, 2007, pursuant to the Agreement and Plan of Merger, dated as of January 5, 2007, by and among AMO, Ironman Merger Corporation, a wholly owned subsidiary of AMO, and IntraLase, we completed the acquisition of IntraLase for total consideration of approximately $822 million in cash. IntraLase was a designer, developer and manufacturer of an ultra-fast laser for refractive and corneal surgery that creates precise corneal incisions for laser vision correction in the first step of LASIK surgery.

The IntraLase acquisition has been accounted for as a purchase business combination. Under the purchase method of accounting, the assets acquired and liabilities assumed are recorded at the date of acquisition at their respective fair values. The results of operations of IntraLase have been included in the accompanying consolidated statements of operations from the acquisition date. The impact of purchase accounting resulted in non-cash pre-tax charges of $85.4 million for in-process research and development and $7.7 million for step-up of inventory to fair value in

the second quarter of 2007. We expensed other acquisition and integration related pre-tax charges of $21.9 million in the year ended December 31, 2007.

Table of Contents

Eye Care Recalls

In May 2007, we initiated a global recall of the MoisturePlus multipurpose formulation after being informed by the U.S. Food and Drug Administration of an association of this product with Acanthamoeba keratitis. The 2007 Recall resulted in a provision for sales returns of $41.5 million and charges totaling $67.5 million, which comprised $37.5 million in costs of goods sold for impairment of inventory and distribution costs, $29.7 million in selling, general and administrative costs associated with public relations, communication, investigation, processing and handling of distributor and end-customer reimbursements and $0.3 million in research and development costs. As of December 31, 2008, we had approximately $0.4 million in accrued liabilities and no remaining balance in accrued sales returns associated with the 2007 Recall.

In November 2006, we voluntarily recalled certain eye care product lots caused by a production-line issue at our manufacturing plant in China (2006 Recall). The 2006 Recall resulted in a provision for sales returns of $9.5 million and charges totaling $15.4 million, which comprised $9.5 million in cost of goods sold for impairment of inventory, distribution and disposal costs and $5.9 million in selling, general and administrative costs associated with public relations, communication, investigation, processing and handling of distributor and end-customer reimbursements in 2006. In fiscal 2007, we recorded a provision for sales returns of $0.2 million and charges totaling $4.5 million, which comprised $2.1 million in costs of goods sold for impairment of inventory, distribution and disposal costs, $2.1 million in selling, general and administrative costs associated with public relations, communication, investigation, and processing and handling of distributor and end-customer reimbursements and $0.3 million in non-operating expenses. As of December 31, 2006, we had approximately $4.5 million in accrued liabilities and $6.7 million in accrued sales returns associated with the 2006 Recall. As of December 31, 2007 and 2008, management did not expect any further significant spending impact from the 2006 Recall.

Management continues to review its estimates of the overall recall costs which could result in additional charges in the future.

2005 Product Rationalization and Repositioning Plan

On October 31, 2005, our board of directors approved a product rationalization and repositioning plan covering the discontinuation of non-strategic cataract surgical and eye care products and the elimination or redeployment of resources that support these product lines. The plan also included organizational changes and potential reductions in force in manufacturing, sales and marketing associated with these product lines, as well as organizational changes in research and development and other corporate functions designed to align the organization with our strategy and strategic business unit organization. Product rationalization covered the discontinuation of non-strategic cataract surgical and eye care products and the elimination or redeployment of resources that supported these product lines. This impacted the scope of our business by eliminating future sales from discontinued products. Business repositioning covered changes in our business strategy and business unit organization. A key driver of the change was our acquisition of VISX in May 2005 which added laser vision correction to our product portfolio. This action, along with other considerations, resulted in many changes, including the movement from a regional organizational structure to a global business unit structure focused by major product categories, strategic and tactical alignment of our business units around common customers and distribution channels and how we market and sell our products to these customers. These changes necessitated organizational shifts as well as workforce reductions in manufacturing, research and development and other corporate functions. Given all the above, the breadth and depth of these changes created a fundamental reorganization that affected the nature and focus of operations.

We incurred charges for such items as organizational changes, brand repositioning, productivity initiatives and sales and marketing. Charges incurred for organizational changes resulted from the reorganization of our management structure from a regional structure to a business unit structure. In connection with the change in management structure, we incurred costs to redefine our strategic planning process, financial reporting processes, realignment and redeployment of customer support and administrative functions and related changes to the underlying infrastructure. Charges incurred for brand repositioning resulted from the reorganization to a business unit structure. We incurred costs to implement a new strategy to link our various product offerings to common customers and distribution channels among our three business units which impacted the manner in which our business is conducted. Charges incurred for productivity initiatives and sales and marketing resulted from our identification of opportunities to make improvements in manufacturing, customer service, information technology, administrative functions and customer and distributor education to support the reorganization to a business unit structure.

Table of Contents

Severance, relocation and related costs were incurred for worldwide workforce reductions due to our discontinuation of certain non-core products and infrastructure and process improvements associated with our productivity initiatives. The majority of these costs occurred in the United States, Japan and Europe. Net asset gains resulted from disposals of long-lived assets from certain discontinued non-core products and relocation of certain facilities, offset by asset write-downs which resulted from the impairment and disposal of long-lived assets from the reduction in expected future cash flows. The fair values of impaired assets were based on probability weighted expected cash flows as determined in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-lived Assets (SFAS 144).

The plan further called for increasing our investment in key growth opportunities, specifically our refractive implant product line and international laser vision correction business, and accelerating the implementation of productivity initiatives.

In 2006, we incurred $62.7 million of pre-tax charges, which included $16.3 million for inventory, manufacturing related and other charges included in cost of sales, and $46.4 million included in operating expenses for severance, relocation and other one-time termination benefits of $13.7 million, productivity and brand repositioning costs of $37.6 million, offset by net asset disposal gains of $2.8 million and a net credit from settlement of contractual obligations of $2.1 million. In 2005, we incurred $42.3 million in pre-tax charges which included $12.6 million for inventory related charges included in cost of sales, and $29.7 million included in operating expenses for severance, relocation and other one-time termination benefits of $14.0 million, asset write-downs of $9.2 million, contractual obligations of $2.7 million and accelerated productivity and brand repositioning costs of $3.8 million. The plan was completed in 2006. The cumulative charges incurred of $105.0 million were within the range previously announced.

VISX Acquisition

On May 27, 2005, pursuant to the Agreement and Plan of Merger, dated as of November 9, 2004, as amended, by and among AMO, Vault Merger Corporation, a wholly owned subsidiary of AMO, and VISX, we completed our acquisition of VISX for total consideration of approximately $1.4 billion, consisting of approximately 27.8 million shares of AMO common stock, the fair value of VISX stock options converted to AMO stock options and approximately $176.2 million in cash. VISX products include the *VISX STAR* Excimer Laser System, the *VISX WaveScan* System and *VISX* treatment cards.

The VISX acquisition has been accounted for as a purchase business combination. Under the purchase method of accounting, the assets acquired and liabilities assumed were recorded at the date of acquisition at their respective fair values. Our reported financial position and results of operations after May 27, 2005 include VISX and the impact of purchase accounting. Purchase accounting applied to the VISX acquisition resulted in a non-cash in-process research and development charge of $488.5 million in the year ended December 31, 2005.

Critical Accounting Policies and Estimates

Revenue Recognition and Accounts Receivable

We recognize revenue when it is realized or realizable in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition , which requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred and title and the risks and rewards of ownership have been transferred to the customer or services have been rendered; (3) the price is fixed or determinable; and (4) collectibility is reasonably assured.

Our eye care and cataract products are sold to both distributor and non-distributor customers under customary and typical contractual and purchase order arrangements for our industry. We record revenue from eye care and cataract product sales when title and risk of ownership have been transferred to the customer, which is typically upon delivery to the customer, with the exception of intraocular lenses distributed on a consignment basis, which is upon notification of implantation in a patient.

We sell our refractive products to non-distributor customers under contractual arrangements which contain multiple deliverables. We evaluate whether the separate deliverables in each arrangement can be unbundled. These contractual arrangements typically include a laser system, a license and related per procedure fees associated with

Table of Contents

disposables (treatment key cards or patient interfaces), service, training and installation. For these sales, we apply the residual value method in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables , which requires the allocation of the total arrangement consideration less the fair value of the undelivered elements. The portion of arrangement consideration associated with training is recognized when the training completed. The portion of arrangement consideration attributable to service is deferred and recognized over the term of the service period included in the initial sale of the laser system, generally one year. The residual arrangement consideration represents the laser system, initial included per procedure fees and installation, and is recognized upon completion of the installation at the customer location.

We recognize revenues for per procedure fees that are separate from and subsequent to a laser system sale upon shipment if we have no continuing obligations or involvement subsequent to shipment, otherwise we recognize revenue upon delivery to the customer.

We also offer extended warranty contracts, which are separately sold to non-distributor customers. We recognize revenue on a straight-line basis over the period of the extended contracts, which is generally one year.

Some non-distributor customers finance the purchase or rental of their equipment directly from us over periods ranging from one to four years. These financing agreements are classified as either rental or operating leases or sales-type leases as prescribed by SFAS No. 13, Accounting for Leases . Under sales-type leases, equipment revenues are recognized based on the net present value of the expected cash flow after installation. Under rental or operating lease arrangements, rental revenue is recognized over the term of the agreement.

The Company also utilizes third-party distributors for refractive products who are responsible for all marketing, sales, installation, training and warranty labor costs. Accordingly, revenue associated with sales to distributors is recognized when title and risk of loss has been transferred to the distributor in accordance with the terms of the related distribution agreement, generally upon delivery to the distributor.

For all of our products, we use judgment when determining whether collection is reasonably assured and we rely on a number of factors, including past transaction history with the customer and management evaluations of the credit worthiness of the customer. When we determine that collection is not reasonably assured, we defer revenue until such time that collection is reasonably assured.

We generally permit returns of eye care and cataract products if an item is returned in a timely matter, in good condition, and through the normal channels of distribution. Eye care and cataract product return policies in certain international markets can be more stringent and are based on the terms of contractual agreements with the customers. We generally do not accept returns of refractive products and do not provide rights of return or exchange, price protection or stock rotation rights to any refractive product distributor. Allowances for returns are provided for based upon an analysis of our historical patterns of returns. To date, excluding the impacts of our product recalls, historical product returns have been within our estimates.

When we recognize revenue from the sale of products, certain allowances known and estimable at time of sale are recorded as a reduction to sales. These items include cash discounts, allowances and rebates. These items are reflected as a reduction to accounts receivable to the extent the customer will or is expected to reduce its payment on the related invoice amounts. In addition, certain items such as rebates provided to customers that meet certain buying targets are paid to the customer subsequent to customer payment. In these cases, such amounts are recorded as accrued liabilities. These provisions are estimated based on historical payment experience, historical relationship to revenues and estimated customer inventory levels. To date, historical sales allowances have been within our estimates.

The allowance for doubtful accounts is determined by analyzing specific customer accounts and assessing the risk of uncollectibility based on insolvency, disputes, current economic trends, and changes in customer payment trends or other collection issues. Account balances are charged off against the allowance when it is probable the receivable will not be recovered.

Goodwill, Intangible Assets and Long-Lived Assets

Goodwill represents the excess of acquisition costs over the fair value of net assets of purchased businesses. Intangible assets include patents, licensing agreements, customer relationships and technology rights, which are amortized utilizing the straight-line method over their estimated useful lives ranging from 3 to 19 years, and non-amortizable trademarks.

Table of Contents

Goodwill and non-amortizable intangible assets are not amortized, but instead are subject to a periodic impairment review performed during the second quarter of each fiscal year. We also review the carrying amount of goodwill and non-amortizable intangible assets in interim periods whenever events and circumstances indicate that the carrying amount of these assets may not be recoverable. Impairment indicators include, among other conditions, cash flow deficits, historic or anticipated declines in revenue or operating profit and adverse legal or regulatory developments.

We review the recoverability of our goodwill and non-amortizable intangible assets by comparing each unit s fair value to the book value of its net assets. In a business combination, goodwill is allocated to our various reporting units, which are the same as our reportable segments, based on relative fair value of the assets acquired and liabilities assumed. If the book value of the reporting unit s net assets exceeds its fair value, the goodwill is written down to its implied fair value.

Goodwill and non-amortizable intangible assets are specifically identified to each reportable unit. Since each manufacturing plant is dedicated to a specific product category that corresponds to our reportable segments, assets and liabilities related to manufacturing operations are specifically identified to each reportable unit. Assets and liabilities of our commercial operations are not specifically identified since these amounts benefit multiple business units. We use revenue as a key measure in evaluating the performance of each business unit and the determination of resources to be dedicated to each business unit. Therefore, we believe that revenue generated by each reporting unit provides a reasonable measure to use as a basis to apply a consistent allocation methodology. Accordingly, assets and liabilities for our commercial operations have been assigned to the reporting units based on revenues generated by each reporting unit.

In the second quarters of 2008, 2007 and 2006, we performed our annual impairment tests of our goodwill and non-amortizable intangible assets, and no impairment was indicated based on these tests. In the fourth quarter of 2008, as the result of a greater than 50% decline in the price of our common stock from mid-October through December 31, 2008 resulting from announced reductions in our projected revenues and operating results in October 2008 and overall declines in the broader stock markets, we believed that the carrying amount of goodwill and non-amortizable intangible assets may not be recoverable. Consequently, we reviewed the carrying amounts of these assets to determine the extent of impairment, if any. We first reviewed our non-amortizable VISX and IntraLase tradename intangible assets, and compared the fair values on a discounted cash flow basis to the carrying values. The fair values were determined using a discount rate of 13%, relief from royalty rates of 5-6% and projected revenues over the next 6 years plus a terminal value. The terminal value was determined under the Gordon Growth Model, using a discount rate of 13% and a long-term growth rate of 3%. After comparing their calculated fair values to their carrying values, we determined that the carrying value of the VISX tradename exceeded its fair value. Accordingly, an impairment charge of approximately $36.4 million was recognized in the year ended December 31, 2008. A 1% increase in the discount rate or a 1% decrease in the relief from royalty rate or long-term growth rate would not trigger an impairment of the Intralase tradename intangible asset. A 1% increase in the discount rate or a 1% decrease in the relief from royalty rate or long-term growth rate would increase the impairment charge in the VISX trade name by a range of $5 million to $16 million.

After considering the recognized non-amortizable VISX tradename impairment, we evaluated our goodwill balances by comparing the fair values of our reporting units to their carrying values. Although the fair values of each reporting unit were determined individually using a discounted cash flow approach, the combined fair value of our reporting units was reconciled to the purchase price to be paid by Abbott, as we believe this amount is our best indicator of fair value. The fair value of each reporting unit was determined using projected cash flows over the next 6 years plus a terminal value, using discount rates for each reporting unit ranging from 13% to 18%. The terminal values were determined under the Gordon Growth Model, using the corresponding discount rates and long term growth rates of 3%. Based on the discounted cash flow analysis, we determined that the fair values of our refractive and cataract reporting units exceeded their carrying values, and, consequently, no goodwill impairment was recognized for these reporting units. However, we determined that goodwill for the eye care reporting unit was impaired, and, accordingly, performed a step 2 analysis to determine the amount of the impairment. As a result, an impairment charge of approximately $36.2 million was recognized in the year ended December 31, 2008 representing the entire goodwill balance of this reporting unit. A 1% increase in the discount rates or a 1% decrease in the long-term growth rates for each reporting unit would not trigger any additional goodwill impairment.

We believe that the assumptions and rates used in our goodwill and non-amortizable intangible asset impairment testing are reasonable, but they are judgmental, and variations in any of the assumptions or rates could result in materially different calculations of fair values, and ultimately the amount, if any, of impairment charges that are recognized.

Table of Contents

Should the merger with Abbott not be consummated on the terms and timing currently anticipated, or at all, the market values of our common stock and our debt could decline from the current values, which may result in material impairment charges in future periods.

In accordance with SFAS 144, we assess potential impairment to our long-lived assets, including amortizable intangible assets, when events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If required, an impairment loss is recognized as the difference between the carrying value and the fair value of the assets. In the fourth quarter of 2008, we reviewed the recoverability of our long-lived assets in conjunction with the goodwill and non-amortizable intangible assets, and concluded that the long-lived assets were recoverable and no impairment was indicated.

Income Taxes

We account for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We evaluate the need to establish a valuation allowance for deferred tax assets based upon the amount of existing temporary differences, the period in which they are expected to be recovered and expected levels of taxable income. A valuation allowance to reduce deferred tax assets is established when it is more likely than not that some or all of the deferred tax assets will not be realized.

Effective January 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48), which requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. Under FIN 48, tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. As a multinational corporation, we are subject to taxation in many jurisdictions, our income tax returns in several locations are being examined by the local tax authorities and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various tax jurisdictions. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially to reverse previously recorded tax liabilities.

Stock-Based Compensation

Effective January 1, 2006, we began accounting for stock options and employee stock purchase plan (ESPP) shares under the provisions of SFAS No. 123R, Share-Based Payment (SFAS 123R). SFAS 123R requires entities to recognize the cost of employee services received in exchange for awards of equity instruments expected to vest based on the grant-date fair value of those awards. The fair value of stock options and ESPP purchase rights are estimated using a Black-Scholes option valuation model. This model requires the input of subjective assumptions, including expected stock price volatility, estimated life and estimated forfeitures of each award. The fair value of equity-based awards is amortized over the vesting period of the award and we have elected to use the straight-line method. We make quarterly assessments of the adequacy of the tax credit pool to determine if there are any deficiencies which require recognition in the consolidated statement of operations.

We also have an annual performance stock incentive program which provides the opportunity for certain executives to earn long-term incentive compensation awards based upon specified performance measures. Awards are to be settled in a number of restricted stock shares or units equal to the value of the award amount divided by the fair market value of our common stock on the date the performance criteria are deemed to have been met. The fair value of the awards on the grant date is estimated using a lattice-based valuation model. The associated expense, if any, is recognized on a straight-line basis over the period which starts from the date the annual program is approved by the board of directors through the end of the expected vesting period of the restricted stock awards.

Table of Contents

Acquired In-Process Research and Development

Costs to acquire in-process research and development (IPR&D) projects and technologies which have no alternative future use and which have not reached technological feasibility at the date of acquisition are expensed as incurred. The fair value of IPR&D projects and technologies is estimated based upon management s assumptions such as projected regulatory approval dates, estimated future revenues and cost of goods sold of the products under development and expected sales and marketing costs. The major risks and uncertainties associated with the timely and successful completion of these projects consist of the ability to confirm the safety and efficacy of the technology based on the data from clinical trials and obtaining necessary regulatory approvals. In addition, no assurance can be given that the underlying assumptions used to forecast the cash flows or the timely and successful completion of such projects will materialize, as estimated. For these reasons, among others, actual results may vary significantly from the estimated results.

Comparing Fiscal Years Ended December 31, 2008, 2007 and 2006

The following table presents net sales and operating income by operating segment for the years ended December 31, 2008, 2007 and 2006, respectively:

	Net Sales			Operating Income (Loss)		
(In thousands)	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
Cataract	$ 541,560	$ 497,656	$ 469,793	$ 291,714	$ 264,111	$ 221,144
Refractive	421,914	422,148	266,108	254,759	250,396	178,625
Eye Care	221,561	171,042	261,595	77,106	(399)	103,073
Total operating segments	$ 1,185,035	$ 1,090,846	$ 997,496	$ 623,579	$ 514,108	$ 502,842

Net sales increased by $94.2 million, or 8.6%, to $1,185.0 million in 2008 from $1,090.8 million in 2007. The increase in 2008 was primarily the result of higher net sales in our cataract and eye care operating segments, mainly resulting from the recovery of our 2007 Recall. 2008 also included the full year results of the IntraLase acquisition, which was completed on April 2, 2007. Net sales also included an estimated favorable foreign currency impact of 3.2% in 2008. Our sales and earnings in future periods may be impacted during times of a strengthening or weakening U.S. dollar.

Net sales from our cataract segment increased by 8.8% in 2008 compared with 2007. This increase was the result of strong performance in all product categories both domestically and internationally. Monofocal IOL sales increased 7.8% to $283.3 million in 2008, compared with 2007, driven by our proprietary *Tecnis* line of aspheric monofocal IOLs, including *Tecnis 1-piece*, our first single piece acrylic IOL offering, partially offset by sales declines in older-technology products. Net sales from viscoelastics and phacoemulsification systems were up 10.6% to $236.7 million due to increased sales of our *WhiteStar Signature* system and continued growth of our *Sovereign Compact* phacoemulsification system and increases in surgical pack sales.

Cataract sales growth in 2008 in the U.S. was 5.8%, the Other Americas was 9.1%, Europe/Africa/Middle East (EAM) was 7.4%, Asia Pacific was 11.7% and Japan was 17.3%. The increases were due to continued strong monofocal IOL sales driven by our proprietary *Tecnis* line of aspheric monofocal IOLs, strong demand for our *WhiteStar Signature* system and continued growth of our *Sovereign Compact* phacoemulsification system, partially offset by decreases in sales of older-technology products. Net sales in our cataract business also reflect an estimated favorable foreign currency impact of 3.9% in 2008, largely from fluctuations of the Yen and the Euro versus the U.S. dollar.

Net sales from our refractive segment were relatively flat in 2008 compared with 2007, reflecting increased procedure and related sales and increased systems sales in the first two quarters of 2008 mostly due to the full year impact of the IntraLase acquisition in April 2007, offset by declines in sales of refractive implants and sales of excimer and femtosecond procedure volumes associated with economic weakness affecting primarily the United States in the second half of 2008. We expect U.S. procedures to continue to be impacted into 2009 as refractive procedures are generally an expensive discretionary spending item that consumers may postpone during difficult

Table of Contents

economic times. This postponement will likely result in reduced procedure revenues and lower refractive gross margins until such time as the economic weakness subsides. An acceleration of this decline in the U.S. or globally could have a material adverse impact on our revenue, results of operations, financial condition and liquidity.

Refractive net sales in 2008 decreased in the U.S. by 17.7% primarily due to lower laser procedure volumes and significantly lower system sales. Net sales increased in the Other Americas by 6.6% due to favorable femtosecond procedure growth. Net sales increased in EAM, Japan and Asia Pacific, as a result of our international expansion strategy for the refractive business. Net sales in our Refractive business reflect a favorable foreign currency impact of 0.9% largely from fluctuations of the Yen and the Euro versus the U.S. dollar.

Net sales from our eye care segment increased by 29.5% in 2008 compared with 2007. The increase in net sales reflects our continued recovery from the 2007 Recall with renewed sales of our multipurpose solutions and growing demand for our newly launched line of over-the-counter dry eye products sold under the blink® *Tears* brand, which was introduced in 2008. Net sales overall increased significantly in every major region, compared with the prior year, primarily as a result of higher multipurpose solutions sales attributable to the recovery from the 2007 Recall. Additionally, net sales in the U.S. and Europe benefitted from growing demand for our recently launched over-the-counter dry eye product. Net sales in our eye care business included a favorable foreign currency impact of 7.0% largely resulting from fluctuations of the Yen and the Euro versus the U.S. dollar.

Net sales in the U.S. represented 37.0%, 42.1%, and 41.7% of total net sales in 2008, 2007 and 2006, respectively. Additionally, sales in Japan represented 16.5%, 13.3%, and 13.9% of total net sales in 2008, 2007 and 2006, respectively. No other country, or any single customer, generated over 10% of total net sales in any of these years.

Net sales for 2007 increased by $93.4 million, or 9.4%, to $1,090.8 million from $997.5 million in 2006. The increase in 2007 was primarily the result of the IntraLase and WFSI acquisitions and organic growth in cataract and refractive sales, which were partially offset by the negative impact of the eye care recalls. Net sales also included an estimated favorable foreign currency impact of 2.9% in 2007.

Net sales from our cataract segment increased by 5.9% in 2007 compared with 2006. This increase was driven largely by sales of monofocal IOLs and phacoemulsification systems. Monofocal IOL sales increased 8.5% to $262.8 million in the year ended December 31, 2007, compared with 2006, reflecting continued strong growth of the *Tecnis* IOL franchise, partially offset by sales declines in older-technology products. Net sales from phacoemulsification systems were up 3.7% to $90.7 million due to surgical pack sales and system sales driven by strong growth in our established phacoemulsification franchise and the mid-2007 launch of our *WhiteStar Signature* system. Sales of viscoelastic products in 2007 were slightly above 2006.

Cataract sales growth in 2007 in the U.S. and Other Americas was 8.0% and was driven by strong demand for our *Tecnis* IOL products, partially offset by decreases in sales of older-technology intraocular lenses and viscoelastics. Sales in EAM increased by 9.6% in 2007, primarily due to continued strong IOL sales driven by our proprietary *Tecnis* aspheric monofocal IOL. Sales in Japan declined by 4.5% in 2007, reflecting competitive pricing for acrylic intraocular lenses and decreases in sales of phacoemulsification systems and older-technology intraocular lenses. Net sales in our cataract business reflect an estimated favorable foreign currency impact of 4.1% in 2007, largely from fluctuations of the Yen and the Euro versus the U.S. dollar.

Net sales from our refractive segment increased 58.6% in 2007 compared with 2006. The increase is primarily due to the IntraLase acquisition. Sales of acquired IntraLase products were $137.8 million in the year ended December 31, 2007. The increase also reflects higher demand for our *CustomVue* procedures and strong international system sales. Our refractive IOL sales increased 10.5% to $54.4 million in 2007 compared with 2006, reflecting demand for our *ReZoom* and *Tecnis* Multifocal IOLs.

Refractive net sales increased 37.0% in the U.S. and Other Americas in 2007, compared with 2006, due to the IntraLase acquisition, higher excimer laser procedural volume and a favorable shift toward *CustomVue* procedures and increased sales of our refractive implant portfolio. Net sales increased 170.0%, 455.1% and 48.6% in EAM, Japan and Asia Pacific, respectively, due to the IntraLase acquisition and as a result of our international expansion strategy for the refractive business. The foreign currency impact on refractive sales in 2007 was not material.

Net sales from our eye care segment decreased by 34.6% in 2007 compared with 2006. The sales decrease of $90.6 million in the year ended December 31, 2007 primarily reflects the impact of the 2007 Recall, which includes returns of $41.5 million. We also saw decreased sales of hydrogen peroxide-based products, principally in Europe and Japan, where the migration to single-bottle cleaning regimens continues.

Table of Contents

Eye care net sales decreased significantly in every region in 2007, compared with 2006, primarily as a result of the 2007 Recall. The foreign currency impact on eye care sales in 2007 was not material.

Income and expenses. The following table sets forth certain statement of operations items as a percentage of net sales:

	Year Ended December 31,		
	2008	2007	2006
Net sales	100.0%	100.0%	100.0%
Cost of sales	39.5	43.5	38.0
Gross margin	60.5	56.5	62.0
Other operating costs and expenses:			
Selling, general and administrative	42.0	50.2	40.6
Research and development	6.4	7.5	6.6
In-process research and development		8.0	
Business repositioning			4.7
Restructuring charges	3.9		
Impairment charges	6.1		
Net gain on legal contingencies	(1.7)		(9.7)
Operating income (loss)	3.8	(9.2)	19.8
Interest expense	6.5	6.5	3.0
Unrealized (gain) loss on derivative instruments	(0.5)	0.6	0.1
(Gain) loss due to early retirement of convertible senior subordinated notes	(9.3)		1.9
Gain on investments	(0.3)		
Other non-operating expense, net	1.0	0.3	0.3
Earnings (loss) before income taxes	6.3%	(16.5)%	14.5%
Net earnings (loss)	5.1%	(17.7)%	8.0%

Gross margin and gross profit. Our gross margin percentage increased as a percentage of net sales by 4.0 percentage points to 60.5% in 2008 from 56.5% in 2007. The increase in gross margin was a result of revenue shifts away from lower-margin refractive laser systems toward higher-margin refractive procedures and cataract offerings, and was partially offset by $5.7 million of charges relating to the restructuring included in cost of sales. The trend in our refractive business may reverse in 2009 as we expect continued economic weakness, which may result in reduced procedure revenues, thus resulting in lower gross margins. In addition, gross profit in 2007 was negatively impacted by the 2007 and 2006 Recalls and the IntraLase acquisition/integration-related costs discussed below, partially offset by the favorable impact of a full year of IntraLase net sales in 2008.

Our gross margin percentage decreased as a percentage of net sales by 5.5 percentage points to 56.5% in 2007 from 62.0% in 2006. The decrease in gross margin was largely driven by the negative impact of the 2007 Recall, partially offset by the favorable impact of the IntraLase acquisition. Gross profit for the year ended December 31, 2007 included a $78.0 million negative impact from the 2007 Recall and a $2.3 million negative impact from the 2006 Recall associated with sales returns and product-related costs, which had a combined 7.3 percentage point impact on gross margin. Gross profit for 2007 also included approximately $8.6 million in acquisition and integration charges, which included a $7.7 million non-cash charge for the step-up of inventory to fair value in connection with the IntraLase acquisition, and a $4.7 million charge to discontinue the Amadeus microkeratome distributor agreement in the first quarter of 2007, which had a combined 1.2 percentage point impact on gross margin.

Gross profit for 2006 included a charge of $16.3 million, or a 1.6 percentage point impact on gross margin, for inventory provisions associated with our product rationalization and business repositioning plan. The 2006 Recall also had a negative impact in 2006 of $19.0 million from sales returns, inventory provisions and other charges, or a 1.9 percentage point impact on gross margin.

43

Table of Contents

Selling, general and administrative. Selling, general and administrative (SG&A) expenses as a percentage of net sales was 42.0% in 2008, compared to 50.2% in 2007. The significant contributors to the decrease, in addition to the 2007 Recall and acquisition/integration-related costs included in 2007 expenses but not in the comparable 2008 amounts, includes lower headcount related spending, significantly lower discretionary spending on sales and marketing activities and reductions in variable expenses, primarily on travel and outside services. Also, the decrease is net of a $3.7 million charge for accelerated depreciation of leasehold improvements to the former IntraLase headquarters building we exited early in the fourth quarter of 2008 as part of our restructuring initiative for which no comparable 2007 cost exists. SG&A expenses in 2008 also include a $2.8 million charge for Abbott transaction-related costs, amortization expense of $68.0 million related to acquired intangible assets and stock-based compensation expense under SFAS 123R of $23.0 million, of which $4.7 million related to accelerated stock-based compensation expense from our senior management s voluntary forfeiture of certain stock options.

SG&A expenses as a percentage of net sales was 50.2% in 2007, compared to 40.6% in 2006. SG&A expenses in 2007 include approximately $29.6 million in acquisition and integration-related charges, amortization expense of $60.6 million related to acquired intangible assets and $17.4 million related to the 2007 Recall. Stock-based compensation expense under SFAS 123R included in SG&A expenses was $16.1 million in 2007.

SG&A expenses in 2006 include approximately $1.8 million in acquisition and integration-related charges, amortization expense of $40.0 million related to acquired intangible assets and $5.9 million related to the 2006 Recall. SG&A expenses in 2006 also include a $1.5 million charge associated with the termination of a distributor agreement in India that we had with our former parent, Allergan. Stock-based compensation expense under SFAS 123R included in SG&A expenses was $14.8 million in 2006.

Research and development. Research and development expenditures as a percentage of net sales in 2008 decreased from 7.5% to 6.4%. or 1.1 percentage points as compared to 2007. The decrease was due to the planned synergies following the IntraLase integration and to lower headcount and discretionary spending. We also recognized an accelerated stock-based compensation charge of $1.0 million in the fourth quarter of 2008 in connection with our senior management s voluntary forfeiture of certain stock options for which no comparable 2007 charge exists. Research and development expenditures as a percentage of net sales in 2007 increased from 6.6% to 7.5%, or 0.9 percentage points as compared to 2006. The increase primarily reflects incremental operating expenses from the IntraLase acquisition. We also recognized an impairment charge of $1.0 million in the first quarter of 2007 in connection with a research and development licensing arrangement.

Our research and development strategy is to develop proprietary products for vision correction that are safe and effective and address unmet needs. We are currently focusing on new advancements that build on our *Tecnis*, *Healon* and phacoemulsification technologies, corneal and lens-based solutions to presbyopia, projects from the acquisitions of WFSI and IntraLase, multipurpose solutions and dry eye products.

In-process research and development. In the second quarter of 2007, we recorded $1.6 million and $85.4 million IPR&D charges related to the WFSI acquisition and IntraLase acquisition, respectively.

IntraLase had two development projects in-process as of the acquisition date. The first project involved technology advancements to reduce the pulse energy and provide smoother, more precise dissections, and enables thinner flaps with the femtosecond laser. The fair value assigned to this project was $81.3 million. The second project involved the development of technologies to allow for ease of transport of femtosecond lasers from one location to another. The fair value assigned to this project was $4.1 million. Subsequent to the acquisition date, our management decided to cancel the second project.

The allocation of the purchase price assigned to IPR&D represented the estimated fair value of projects that, as of the acquisition date, had not reached technological feasibility and had no alternative future use. The fair value of these IPR&D projects was estimated by performing a discounted cash flow analysis using the income approach. Net cash flows attributable to the projects were discounted to their present values at a rate commensurate with the perceived risk, which for these projects was estimated between 14-16%. The following assumptions underlie the projected cash flows.

An enhanced procedure to cut corneal flaps with the femtosecond laser was forecast to be approved for sale in the U.S. in 2011.

Table of Contents

Further development of therapeutic applications in the IEK was forecast to be approved for sale in the U.S. in 2007. This procedure uses the IntraLase laser for corneal transplant surgery, which involves replacing a diseased or scarred cornea with a donor cornea.

Other ancillary femtosecond laser technologies were forecast to be approved for sale in the U.S. in 2008.

In addition, solely for the purposes of estimating the fair value of the IPR&D projects, the following assumptions were estimated:

Revenue that is reasonably likely to result from the approved and unapproved potential uses of identifiable intangible assets that includes the estimated number of units to be sold, estimated selling prices, estimated market penetration and estimated market share and year-over-year growth rates over the product cycles;

Remaining development and sustaining engineering expenses once commercialized were also estimated by management according to internal planning estimates; and

The cost structure was assumed to be similar to that for existing products within IntraLase as well as similar assets previously acquired and those observed in the market.

The major risks and uncertainties associated with the timely and successful completion of the first project consist of the ability to confirm the safety and efficacy of the technology based on the data from clinical trials and obtaining necessary regulatory approvals. In addition, no assurance can be given that the underlying assumptions used to forecast the cash flows or the timely and successful completion of this project will materialize, as estimated. For these reasons, among others, actual results may vary significantly from the estimated results.

As of December 31, 2008, the first project had begun commercial production for upgrade kits to existing femtosecond lasers and we expect to begin commercial production of full systems in the first half of 2009. The project is currently on track and, to date, except for ongoing costs to develop the project, has not impacted our expected investment return, results of operations or financial condition.

Restructuring charges. In 2008, we incurred $45.8 million of pre-tax charges which comprised severance, retention bonuses and other one-time termination benefits of $42.0 million and travel, relocation and facilities related costs of $3.8 million. In addition, we incurred $5.7 million of charges for facilities and other related costs recorded in our cost of sales that related to the restructuring and a $3.7 million charge for accelerated depreciation of leasehold improvements recorded in SG&A related to the restructuring.

Goodwill and intangible asset impairment. In the fourth quarter of 2008, as the result of a greater than 50% decline in the price of our common stock from mid-October 2008 through December 2008 resulting from announced reductions in our projected revenues and operating results in October 2008 and overall declines in the broader stock markets, we believed that the carrying amount of goodwill and non-amortizable intangible assets may not be recoverable. Consequently, we reviewed the carrying amounts of these assets to determine the extent of impairment, if any. We first reviewed our non-amortizable VISX and IntraLase tradename intangible assets, and compared their fair values on a discounted cash flow basis to their carrying values. After comparing their calculated fair values to their carrying values, we determined that the carrying value of the VISX tradename exceeded its fair value. Accordingly, an impairment charge of approximately $36.4 million was recognized in the year ended December 31, 2008.

After considering the recognized non-amortizable VISX tradename impairment, we evaluated our goodwill balances by comparing the fair values of our reporting units to their carrying values. Although the fair values of each reporting unit were determined individually using a discounted cash flow approach, the combined fair value of our reporting units was reconciled to the purchase price to be paid by Abbott, as we believe this amount is our best indicator of fair value. Based on the discounted cash flow analysis, we determined that the fair values of our refractive and cataract reporting units exceeded their carrying values, and, consequently, no goodwill impairment was recognized for these reporting units. However, we determined that goodwill for the eye care reporting unit was impaired, and, accordingly, performed a step 2 analysis to determine the amount of the impairment. As a result, an impairment charge of approximately $36.2 million was recognized in year ended December 31, 2008 representing the entire goodwill balance of this reporting unit.

Net gain on legal contingencies. We recognized a net gain on legal contingencies of $20.5 million, net of legal costs incurred, in the second quarter of 2008 from the execution of an agreement with Alcon, Inc., Alcon

45

Table of Contents

Laboratories, Inc., and Alcon Manufacturing Ltd. (collectively, Alcon). As part of the agreement, Alcon made a payment of $31 million to us and we made a payment to Alcon of $10 million. We received the net cash proceeds of $21 million in the second quarter of 2008.

We recognized a net gain on legal contingencies of $96.9 million in 2006, primarily from settlement of pending patent litigation, net of costs incurred. On July 7, 2006, we entered into a settlement agreement with Alcon regarding all pending patent litigation between us and Alcon. The settlement required Alcon to pay us a lump-sum payment of $121 million which was received in July 2006 and was accounted for in the third quarter of 2006. The parties agreed to dismiss all pending patent litigation in Delaware and Texas, agreed not to sue each other regarding the patents at issue in those cases and cross-licensed patents covering existing features of commercially available phacoemulsification products.

Operating income (loss). Operating income (loss) was $44.7 million, $(100.1) million and $197.7 million in 2008, 2007 and 2006, respectively. Operating income as a percentage of net sales, or operating margin, was 3.8% in the year ended December 31, 2008. The $44.7 million operating income in 2008 reflected the impact of a $20.5 million net gain on legal contingencies, $45.8 million in restructuring charges, $5.7 million of charges for facilities and other costs relating to the restructuring, a $3.7 million charge for accelerated depreciation of leasehold improvements related to the restructuring, $72.6 million of goodwill and intangible asset impairment charges, a $2.8 million charge for Abbott transaction-related costs, $68.0 million of intangibles amortization included in SG&A and $29.6 million in stock-based compensation expense, of which $5.9 million related to accelerated stock-based compensation expense from our senior management s voluntary forfeiture of certain stock options. The net impact from these items reduced operating margin by 18.0 percentage points in 2008.

Operating loss as a percentage of net sales, or operating margin, was 9.2% in the year ended December 31, 2007. Our 2007 operating loss reflects a $20.4 million charge for stock-based compensation expense under SFAS 123R and amortization of acquisition-related intangible assets of $60.6 million. Operating loss in 2007 was negatively impacted by $107.8 million related to the 2007 Recall and $125.2 million in charges associated with acquisition and integration activities.

Operating income as a percentage of net sales, or operating margin, was 19.8% in the year ended December 31, 2006. Operating income in 2006 reflects a $19.2 million charge for stock-based compensation expense under SFAS 123R and $24.9 million in charges related to the 2006 Recall. Our 2006 operating income was impacted by a $96.9 million net gain related to the settlement of legal matters discussed above, $19.0 million from the 2006 recall and an aggregate $66.0 million in net charges associated with rationalization and repositioning initiatives, acquisitions, integrations, and termination of a distributor contract.

Operating income from our cataract business increased by $27.6 million in the year ended December 31, 2008, due to the increase in net sales of IOL products, viscoelastics and phacoemulsification systems discussed above. Operating income from our refractive business increased by $4.4 million in the year ended December 31, 2008, primarily due to the impact of the IntraLase acquisition, which was completed in the second quarter of 2007. Operating income from our eye care business increased by $77.5 million in the year ended December 31, 2008, primarily due to the recovery from the 2007 Recall discussed above.

Operating income from our cataract business increased by $43.0 million in the year ended December 31, 2007, due to the increase in net sales and favorable mix of higher-margin products, partially offset by declines of older-technology products. Operating income from our refractive business increased by $71.8 million in the year ended December 31, 2007, primarily due to sales of products acquired from IntraLase in April 2007. Operating income from our eye care business decreased by $103.5 million in the year ended December 31, 2007, primarily due to the recalls and ongoing declines in the market for hydrogen peroxide-based products.

Non-operating expense. Interest expense was $77.4 million, $70.5 million and $30.3 million in 2008, 2007 and 2006, respectively. The increase in 2008 was due to the issuance of more than $700 million in debt in April 2007 in connection with the IntraLase acquisition, partially offset by lower interest rates during the second half of 2008 on variable rate borrowings. Interest expense in 2008 also includes $3.0 million of a deferred financing cost write-off associated with the repurchase of our convertible senior subordinated notes. The increase in 2007 was due to the issuance of $700 million in debt in April 2007 in connection with the acquisition of IntraLase. Interest expense in 2007 also includes a $1.3 million deferred financing cost write-off associated with the IntraLase acquisition. Interest expense in 2006 includes a pro-rata write-off of debt issuance costs of $3.3 million primarily associated with the termination of a term loan.

Table of Contents

We recorded an unrealized (gain) loss on derivative instruments of $(5.8) million, $6.1 million and $1.3 million in 2008, 2007 and 2006, respectively. We record as unrealized (gain) loss on derivative instruments the mark-to-market adjustments on the outstanding foreign currency options and forward contracts into which we entered into in order to reduce the volatility of expected earnings in currencies other than the U.S. dollar.

During 2008, we repurchased $227.0 million aggregate principal amount of convertible senior subordinated notes ($57.0 million principal amount of the 2 1/2% Notes and $170.0 million principal amount of the 3.25% Notes) utilizing borrowings under our Credit Facility. We recognized a gain on debt extinguishment of $110.4 million in conjunction with the note repurchases, excluding the write-off of the deferred financing costs discussed above.

During the year ended December 31, 2006, we entered into an accelerated share repurchase arrangement with a third-party to use the proceeds from the issuance of the 3.25% Notes to purchase $500.0 million of our common stock at a volume weighted price per share over the term of the agreement. During 2006, a third-party had delivered to us in the aggregate 10.5 million shares of our common stock. The impact of the shares repurchased under this arrangement in 2006 reduced stockholders equity by $500.0 million, which included $0.1 million for the par value of common stock, additional paid-in capital of $247.2 million and accumulated deficit of $252.7 million. Repurchased shares were retired upon delivery to us. In addition, during 2006, we repurchased $148.9 million of aggregate principal amount of convertible senior subordinated notes ($103.9 million principal amount of the 2 1/2% Notes and $45.0 million principal amount of the 1.375% Notes) utilizing borrowings under our Credit Facility. We incurred a loss on debt extinguishment of $18.8 million, and wrote-off debt issuance costs of $3.3 million in 2006 in conjunction with the note repurchases.

Other net non-operating expense was $11.7 million, $3.2 million and $2.6 million for 2008, 2007 and 2006, respectively. The increase from 2007 to 2008 is due primarily to an increase in the recognized loss on derivative instruments in 2008, which was partially offset by foreign currency fluctuations in our operating results.

Income taxes. In 2008, we recorded a provision for income taxes of $14.0 million on pre-tax earnings of $75.1 million. The results for the year ended December 31, 2008 included $72.6 million of goodwill and intangible asset impairment charges related to the VISX tradename and goodwill associated with our eye care reporting unit pursuant to SFAS 142 for which $28.2 million of deferred tax benefits were recorded.

We recognized a gain of $110.4 million in conjunction with the note repurchases, excluding the write-off of the deferred financing costs included in interest expense. In connection with these unscheduled repurchases, we also recognized additional ordinary taxable income in the amount of $35.8 million and a corresponding reduction in deferred tax liabilities in the amount of $13.9 million related to the recapture of tax deductions taken in excess of financial statement interest expense.

The recognized gain and ordinary taxable income resulting from the unscheduled retirements of the notes during 2008 allowed us to recognize deferred tax assets related to foreign tax credits and benefits in the amount of $13.5 million for which management had previously established a valuation allowance during the year ended December 31, 2007. In addition, $6.9 million of deferred tax expense associated with utilization of foreign tax credits and benefits was recorded during the year ended December 31, 2008. The total amount of valuation allowances decreased for the year by $11.9 million to an ending balance of $30.2 million, primarily related to the utilization of foreign tax credits.

We recorded a deferred tax benefit of $10.1 million from stock-based compensation of $35.0 million under SFAS 123R. As a result of senior management s voluntary forfeiture of both vested and unvested stock options, we accelerated the remaining expense on cancelled awards that resulted in pre-tax charges of approximately $5.9 million, which is included in the total stock-based compensation expense of $35.0 million. This cancellation created tax shortfalls that results in the reversal of $2.5 million of prior period deferred tax assets and the reversal of $2.3 million of deferred tax assets recorded in the current period. The reversal of these deferred tax assets resulted in a decrease to additional paid-in capital as we have a sufficient windfall tax pool.

As a result of the Emergency Economic Stabilization Act of 2008, which extended the Federal Research and Development Tax Credit, and the California Budget Act of 2008 (AB 1452), which suspended the utilization of California net operating losses until 2010 and made substantial changes in the limitations on the use of California business credits, we recorded a benefit of $1.4 million related to the Federal Research and Development Tax Credit and released a previously established valuation allowance in the amount of $3.5 million related to future California Research and Development Tax Credit benefits.

Table of Contents

Income taxes are provided on taxable income at the statutory rates applicable to such income and we have provided for U.S. federal income taxes and anticipated foreign withholding taxes on the undistributed earnings of non-U.S. subsidiaries.

In 2007, we recorded a provision for income taxes of $13.0 million on a pre-tax loss of $179.9 million. The 2007 Recall continued to impact lower-tax foreign jurisdictions and resulted in a reduced tax benefit for the year. The tax rate for the year ended December 31, 2007 was negatively impacted by the 2007 Recall, including the related impact on utilization of foreign tax credits as described below. The results for the year ended December 31, 2007 included $87.0 million of IPR&D charges related to the purchase of IntraLase and WFSI for which no tax benefits were recorded and a $31.3 million deferred tax expense associated with the integration of IntraLase.

The 2007 Recall impacted our ability to utilize existing and expected deferred tax assets related to foreign tax credits and benefits that result from our repatriation policy. As such, management determined that it was no longer more likely than not that $9.5 million of existing foreign tax benefits and $17.5 million of foreign tax benefits previously expected to be generated were realizable. Accordingly, during the year ended December 31, 2007, management established a valuation allowance for these items.

In addition, $9.3 million of previously expected deferred tax liabilities associated with future utilization of foreign tax credits and benefits were reversed during the year ended December 31, 2007 as a result of the impact of the 2007 Recall. The total amount of valuation allowance increased for the year ended December 31, 2007 by $33.5 million to $42.1 million, primarily related to the valuation allowance of foreign tax benefit items described above. Additionally, we recorded a deferred tax benefit of $5.9 million from stock-based compensation of $20.4 million under SFAS 123R.

In 2006, we recorded a provision for income taxes of $65.3 million on pre-tax income of $144.8 million. The pre-tax income in 2006 included a net gain on legal contingencies of $96.9 million, for which we recorded income tax expense of $39.9 million, and charges of $18.8 million associated with the repurchase of convertible notes, which resulted in the recognition of partial deferred tax benefit of $3.9 million. Additionally, we recorded a deferred tax benefit of $6.3 million from stock-based compensation of $19.2 million under SFAS 123R.

We believe our future effective income tax rate may vary depending on our mix of domestic and international taxable income or loss and the various tax and treasury methodologies we implement, including our policy regarding repatriation of future accumulated foreign earnings.

Liquidity and Capital Resources

We assess our liquidity by our ability to generate cash to fund operations as well as by our ability to borrow, based on or supported by, our cash generating capabilities from operations. Significant factors in the management of liquidity are: funds generated by operations; levels and changes in accounts receivable, inventories, accounts payable and capital expenditures; adequate lines of credit; and financial flexibility to attract long-term capital on satisfactory terms. As of December 31, 2008, we had cash and equivalents of $50.7 million. We also have access to a 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 in April 2014 (the Term Loan). Historically, we have generated cash from operations in excess of working capital requirements, and we expect to do so in the future.

Net cash provided by operating activities in 2008 was $126.9 million compared to $52.2 million in 2007 and $224.8 million in 2006. Cash provided by operating activities increased in 2008 compared to 2007 due to higher net income in 2008, improved collections on accounts receivable, and decreased payments for other non-current assets. In addition, cash provided by operating activities includes the net cash proceeds from a gain on legal contingencies of $20.5 million. The increase in operating cash flows was offset by the cash outlay for restructuring actions, a decrease in the rate of inventory turnover, the buildup of bridging inventories to support our manufacturing move, the buildout of our global service structure and the timing of payments of accounts payable and other current liabilities. Operating cash flow declined in 2007 compared to 2006 largely from the negative impact of the eye care recalls and interest payments on long-term debt associated with the acquisition of IntraLase, partially offset by favorable timing of changes in accounts receivable, other current assets, accounts payable, accrued expenses and other liabilities and income taxes.

Net cash used in investing activities was $31.3 million, $801.0 million, and $40.4 million in 2008, 2007 and 2006, respectively. The decrease in cash used in investing activities from 2007 to 2008 was mainly due to the decrease in cash paid for acquisitions, lower capital and internal-use software expenditures and the proceeds from

Table of Contents

the sale of an investment, partially offset by an increase in spending for demonstration and bundled equipment. The 2007 cash expenditures include $738.5 million net cash paid primarily for the acquisitions of IntraLase and WFSI. Expenditures for property, plant and equipment totaled $22.9 million, $45.8 million, and $29.0 million in 2008, 2007, and 2006, respectively. The 2008 property, plant and equipment (PP&E) expenditures primarily comprised expenditures associated with the new Milpitas Plant and continuation of upgrades and expansion of our eye care facility in China. The 2007 PP&E expenditures were largely for manufacturing upgrades at our eye care facilities in Hangzhou, China, and Alcobendas, Spain, upgrades at our cataract facilities in Uppsala, Sweden and Añasco, Puerto Rico and costs associated with our new facility in Milpitas, California. The majority of 2006 PP&E expenditures were for the Uppsala, Sweden manufacturing facility to separate the facility from existing Pfizer operations and related upgrades and for upgrades to our eye care product manufacturing facility in Alcobendas, Spain. Expenditures for demonstration (demo) and bundled equipment, primarily phacoemulsification equipment, were $12.7 million, $9.5 million, and $10.8 million in 2008, 2007, and 2006, respectively. We maintain demo and bundled equipment to facilitate future sales of similar equipment and related products to our customers. Expenditures for capitalized internal-use software were $0.8 million, $8.3 million, and $3.2 million in 2008, 2007, and 2006, respectively. We capitalize internal-use software costs after technical feasibility has been established. The decline from 2007 to 2008 was mainly due to the completion of certain financial system upgrades in early 2008.

In 2009, we expect to invest approximately $35.0 million to $45.0 million in property, plant and equipment, demo and bundled equipment and capitalized software as part of the overall expansion of our business.

Net cash used in financing activities was $74.3 million in 2008, which primarily comprised $127.1 million of debt repayments and financing-related costs, partially offset by $40.0 million of additional borrowings under our Credit Facility, $6.8 million from the sale of stock to employees and $6.0 million of excess tax benefits from stock-based compensation. The change in cash provided by and used in financing activities from 2007 to 2008 was due primarily to the net decrease in long-term debt and the reduction in cash received from the sale of stock to employees from 2007 to 2008.

During 2008, we repurchased $227.0 million aggregate principal amount of our convertible senior subordinated notes ($57.0 million principal amount of the 2 1/2% Notes and $170.0 million principal amount of the 3.25% Notes) utilizing borrowings under our Credit Facility. We recognized a gain on debt extinguishment of $110.4 million in conjunction with the note repurchases, excluding the write-off of the deferred financing costs included in interest expense. These repurchases were consummated pursuant to privately negotiated transactions with holders of the notes that had previously contacted us. After the repurchases, the principal amount of our convertible senior subordinated notes decreased from $851.1 million at December 31, 2007 to $624.1 million at December 31, 2008.

Net cash provided by financing activities was $762.1 million in 2007, which primarily comprised $22.1 million from the sale of stock to employees, proceeds of $700.0 million from the issuance of the 7 1/2% Notes and term loan to fund the IntraLase acquisition and $60.0 million of borrowings under the Credit Facility, offset by $3.4 million of debt repayments and the payment of financing-related costs of $16.5 million.

Net cash used in financing activities was $189.8 million in 2006, which primarily comprised $227.7 million of debt repayments and the payment of financing-related costs of $11.1 million, offset by $42.2 million from the sale of stock to employees and $6.7 million of excess tax benefits associated with stock options. Proceeds of $500.0 million from the issuance of the 3.25% Notes were used to repurchase 10.5 million shares of our common stock.

As of December 31, 2008, the Revolver included outstanding cash borrowings of $100.0 million and commitments to support letters of credit totaling $8.4 million issued on our behalf for normal operating purposes, which resulted in an available balance of $191.6 million. The Revolver balance at December 31, 2008 is mainly a result of our repurchase of the convertible senior subordinated notes discussed above, which was offset by principal reduction payments made during the fourth quarter of 2008 from cash generated by our operating activities. The outstanding balance on the Term Loan was $438.9 million as of December 31, 2008, which reflected scheduled quarterly amortization payments during 2008 plus an additional payment, funded by operating cash flow, of approximately $3.3 million in advance of our required excess cash flow payment under the Credit Facility that would be due in the first half of 2009.

Borrowings under the Credit Facility, if any, bear interest at current market rates plus a margin based upon our ratio of debt to EBITDA, as defined. The incremental interest margin on borrowings under the Credit Facility decreases as our ratio of debt to EBITDA decreases to specified levels. During 2008, this interest margin was 1.75%

Table of Contents

over the applicable LIBOR rate. Additionally, we can borrow at the prevailing prime rate of interest plus an interest margin of 0.75%. The average annual rate of interest during 2008, inclusive of the applicable interest margin, was 4.99% and 5.22% for the Revolver and Term Loan, respectively.

Under the Credit Facility, certain transactions may trigger mandatory prepayment of borrowings. Such transactions may include certain equity or debt offerings, asset dispositions and extraordinary receipts. During 2008, we generated extraordinary receipts, as defined, which is comprised of net income adjusted for non-cash items, capital expenditures, cash payments for income taxes and interest and changes in working capital. The extraordinary receipts for 2008 resulted in an acceleration of approximately $14.8 million of the balance on the Term Loan at December 31, 2008, which is due within 95 days of year end. This amount is in addition to the $3.3 million we voluntarily prepaid on the Term Loan in December 2008. The Revolver contains a material adverse effect clause, which does not trigger mandatory prepayments, but which may limit future borrowings.

We pay a quarterly fee (1.875% per annum at December 31, 2008) on the average balance of outstanding letters of credit and a quarterly commitment fee (0.50% per annum at December 31, 2008) on the average unused portion of the Revolver. In addition, we make mandatory quarterly amortization payments (1.0% per annum at December 31, 2008) on the outstanding balance of the Term Loan.

The Credit Facility provides that we maintain certain financial and operating covenants in order to continue to have access to the financing under the agreement. These covenants include, among other provisions, maintaining specific leverage and interest coverage ratios (the Financial Covenants) which pertain only to the Revolver. We were in compliance with the Financial Covenants at December 31, 2008. Certain covenants under the Credit Facility may limit the incurrence of additional indebtedness. Our Credit Facility prohibits dividend payments by us. On October 5, 2007, as a result of the 2007 Recall, we amended the Credit Facility. The amendment changed the Maximum Consolidated Total Leverage Ratio (the Leverage Ratio) for certain quarterly periods. Additionally, for purposes of calculating this ratio as well as the Minimum Consolidated Interest Coverage Ratio (the Interest Coverage Ratio), we were permitted to exclude certain recall costs and related impacts. On July 30, 2008, in anticipation of the effects to the LASIK business of the slowing U.S. economy, we amended the Credit Facility a second time. The amendment changed the Leverage Ratio for certain quarterly periods. In February 2009, we further amended the Credit Facility, which increased the Leverage Ratio for the first quarter of 2009. The Credit Facility is collateralized by a first priority perfected lien on, and pledge of, all of our combined 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.

Our cash position includes amounts denominated in foreign currencies and the repatriation of those cash balances from some of our non-U.S. subsidiaries may result in additional tax costs. However, these cash balances are generally available without legal restriction to fund ordinary business operations.

We expect that our merger with Abbott will be completed during the first quarter of 2009. The terms of the Merger Agreement indicate that if a majority of the outstanding shares of our common stock are tendered and purchased pursuant to the tender offer provided for in the Merger Agreement, Abbott will advance, provide access to or otherwise fund sufficient amounts to us to satisfy our outstanding debt obligations, including the Credit Facility, the convertible senior subordinated notes and the senior subordinated notes upon the close of the merger or shortly thereafter. Abbott has informed us that is has a substantial amount of available capital to support the operations of our acquired business, including available cash and investment balances, cash flow from operations and access to credit facilities, in addition to our operating cash flows.

Should the merger with Abbott not be consummated and given the worldwide economic crisis and its effects on our refractive business, our current financial projections indicate that we may not be in compliance with the Leverage Ratio in 2009, possibly as early as the second quarter. We would revert to the immediate exploration of one or more of the alternatives that we were pursuing as part of our capital raising and debt reduction program that began in the second half of 2008. As a result of the Merger Agreement, we suspended work on these capital raising and debt reduction efforts.

There were various elements to our capital raising and debt reduction efforts, which were being explored either individually or in some combination at that time, including:

- continued use of our Revolver to repurchase our convertible senior subordinated notes which were trading at a substantial discount to their face value;

50

Table of Contents

further restructuring and cost reduction opportunities, as these actions are most controllable by us;

completion of one or more various types of equity investments, or alternatively, a debt recapitalization or restructuring; and

negotiation of a satisfactory package providing future covenant relief on the Financial Covenants of our Credit Facility.

These options were among several of the more impactful possibilities among a range of alternatives. The capital raising and debt reduction program, together with our previously announced restructuring plans, were attempting to address additional future pressure on our Financial Covenants under the Credit Facility and the potential required repurchases of the 2 1/2% Notes in January 2010 at the option of the holders of those notes.

In the event that we are not in compliance with any Financial Covenant (including the Leverage Ratio or our obligation to make required principal or interest payments when due), our Revolver lenders could, under certain circumstances, accelerate our obligation to repay that indebtedness owed to them and if we were unable to repay, refinance or restructure that indebtedness they could take other actions, including forcing a reduction in the size of their lending commitments, proceeding against the collateral securing that indebtedness or they could terminate their obligations to lend altogether, thereby precluding our ability to access any available borrowings which are required to finance our normal, ongoing operations.

In the event of a pending or actual non-compliance situation as mentioned above with the Financial Covenants, we would seek to amend the Financial Covenants or obtain waivers for non-compliance, either of which could result in substantial additional costs in terms of fees and/or annual interest expense, if any amendment or waiver were granted at all. In the event the required percentage of lender banks were unwilling to amend the Financial Covenants or waive our non-compliance, and in the event our non-compliance continued beyond the relevant cure period, that event would constitute a default under our Term Loan and could result in an acceleration of our obligation to pay this indebtedness. If an acceleration of debt repayment were to occur and continue on our Revolver, Term Loan or both, we would then be in default with our convertible and senior subordinated notes and potentially need to repay these amounts on demand as well.

If an amendment to the Financial Covenants required a change to the pricing schedule (i.e. the interest rates we are required to pay our Credit Facility lenders) then this higher interest rate would accrue to the benefit of both the Revolver banks as well as the Term Loan banks and could result in our paying substantial additional costs in terms of fees and/or annual interest expense.

All the above risks and possible outcomes contemplate the merger not being consummated. As mentioned above, were this to occur we would immediately renew the capital raising and debt reduction alternatives we were previously pursuing. We believe that a number of these options, in combination with each other, when supplemented with our available cash, projected operating cash flows and availability under the Credit Facility, would provide sufficient resources to fund operations, capital expenditures, working capital, debt service and other cash needs over the next twelve months, as well as to repurchase any remaining outstanding 2 1/2% Notes, which would be subject to repurchase in January 2010 at the option of the holder. We also believe there is an alternate path, relying primarily on actions within our control such as additional restructuring and cost reductions, that could achieve a comparable outcome.

We cannot guarantee that we would be able to restart all elements of our capital raising and debt reduction program on favorable terms or at all. Further, we cannot guarantee that we would be able to negotiate any required waivers, amendments or refinancings as contemplated in the above paragraphs on terms favorable to us, if at all. In addition, the terms of existing or future waivers, amendments or debt agreements may restrict us from pursuing any of these alternatives. To the extent some combination of these alternatives were unavailable to us, it could have a material adverse effect on our business, our ability to repay debt principal, our financial condition and our liquidity.

We are partially dependent upon the reimbursement policies of government and private health insurance companies. Government and private sector initiatives to limit the growth of health care costs, including price regulation and competitive pricing, are continuing in many countries where we do business. As a result of these changes, the marketplace has placed increased emphasis on the delivery of more cost-effective medical therapies. While we have been unaware of significant price resistance resulting from the trend toward cost containment, changes in reimbursement policies and other reimbursement methodologies and payment levels could have an adverse effect on our pricing flexibility.

Table of Contents

Additionally, the current trend among U.S. hospitals and other customers of medical device manufacturers is to consolidate into larger purchasing groups to enhance purchasing power. The enhanced purchasing power of these larger customers may also increase the pressure on product pricing, although we are unable to estimate the potential impact at this time.

Our credit ratings and outlooks as of February 2009 are summarized below.

Rating Agency	Rating	Outlook
Moody s	B2	Negative
Standard & Poor s	B+	Negative

Factors that can affect our credit ratings include changes in our operating performance, the economic environment, conditions in our industry, our financial position and changes in our business strategy.

Inflation. Although at reduced levels in recent years, inflation may cause upward pressure on the cost of goods and services used by us. The competitive and regulatory environments in many markets substantially limit our ability to fully recover these higher costs through increased selling prices. We continually seek to mitigate the adverse effects of inflation through cost containment and improved productivity and manufacturing processes.

Foreign currency fluctuations. Approximately 63% of our revenues in the year ended December 31, 2008 and approximately 58% of our revenues in each of the years ended December 31, 2007 and 2006, were derived from operations outside the United States, and a significant portion of our cost structure is denominated in currencies other than the U.S. dollar, primarily the Japanese yen and the euro. Therefore, we are subject to fluctuations in sales and earnings reported in U.S. dollars as a result of changing currency exchange rates.

Contractual obligations. The following represents a list of our material contractual obligations and commitments as of December 31, 2008:

	Payments Due by Period				
	2009	2010-2011	2012-2013	Thereafter	Total
	(in millions)				
Long-term debt, principal amount	$ 119.2	$ 8.8	$ 8.8	$ 1,276.2	$ 1,413.0
Cash commitments for interest payments	63.3	117.0	116.0	269.4	565.7
Operating lease obligations	21.2	28.6	17.3	31.8	98.9
IT services	4.8	8.9	3.8		17.5
Other purchase obligations, primarily purchases of inventory and capital equipment	93.4	26.4			119.8

The long-term debt, principal amount for 2009 includes $100.0 million outstanding under the Revolver that matures in 2013.

As of December 31, 2008, we had a liability for unrecognized tax benefits, including interest and penalties of $42.2 million. We are unable to determine when cash settlement with tax authorities may occur.

Off-balance sheet arrangements. We had no off-balance sheet arrangements at December 31, 2008.

Recent Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 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 157 does not require any new fair value measurements, its application may, in certain instances, change current practice. Where applicable, SFAS 157 simplifies and codifies fair value related guidance previously issued within generally accepted accounting principles (GAAP). We have adopted FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), issued February 2008, and as a result we applied the provisions of SFAS 157 that are applicable as of January 1, 2008, which had no material effect on our consolidated financial statements. FSP 157-2 delays the effective date of SFAS 157 for certain non-financial assets and non-financial liabilities until January 1, 2009.

52

Table of Contents

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 157-3). FSP 157-3 clarifies the application of SFAS 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 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 157-3 did not materially affect our results of operations or financial condition as of and for the year ended December 31, 2008.

We adopted the measurement date provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158) as of January 1, 2008. SFAS 158 requires that we measure the funded status of our defined benefit pension plans as of the date of our statement of financial position, which is December 31. Previously, we measured our funded status as of September 30. In accordance with the measurement date transition provisions, we recognized as an adjustment to accumulated deficit three-fifteenths of the net periodic benefit cost determined for the period from September 30, 2007 to December 31, 2008. The remaining twelve-fifteenths was recognized as the net periodic benefit cost for 2008, exclusive of any curtailment or settlement losses incurred during 2008. The impact of the adoption of this provision resulted in an increase to the pension liability of approximately $0.7 million, an increase in accumulated deficit of approximately $0.4 million and an increase in deferred tax assets of approximately $0.3 million.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141R), and SFAS No. 160, Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 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. We will be required to adopt SFAS 141R and SFAS 160 effective January 1, 2009. We have not yet determined the effect, if any, that the adoption of SFAS 141R and SFAS 160 will have on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the U