LVB Acquisition, Inc.
Form 10-Q
October 11, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2013.

OR

¨	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number 000-54505

Commission File Number 001-15601

LVB ACQUISITION, INC.
BIOMET, INC.
(Exact name of registrant as specified in its charter)

Delaware	26-0499682
Indiana	35-1418342
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
56 East Bell Drive, Warsaw, Indiana	46582
(Address of principal executive offices)	(Zip Code)

(574) 267-6639
(Registrant's telephone number, including area code)

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.

LVB ACQUISITION, INC. Yes þ No ¨

BIOMET, INC. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

LVB ACQUISITION, INC. Yes þ No ¨

BIOMET, INC. Yes þ No ¨

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

LVB ACQUISITION, INC.			
Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	þ	Smaller reporting company	¨
BIOMET, INC.			
Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	þ	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

LVB ACQUISITION, INC. Yes ¨ No þ

BIOMET, INC. Yes ¨ No þ

The number of shares of the registrants' common stock outstanding as of September 30, 2013:

LVB ACQUISITION, INC. 552,387,966 shares of common stock

BIOMET, INC. 1,000 shares of common stock

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Explanatory Note

This Form 10-Q is a combined quarterly report being filed separately by two registrants: LVB Acquisition, Inc. (“LVB”) and Biomet, Inc. (“Biomet”). Unless the context indicates otherwise, any reference in this report to the “Company,” “we,” “us” and “our” refer to LVB, Biomet and their subsidiaries. Each registrant hereto is filing on its own behalf all of the information contained in this quarterly report that relates to such registrant. Each registrant hereto is not filing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

Table of Contents

Item 1. Condensed Consolidated Financial Statements.

LVB Acquisition, Inc. and Subsidiaries Condensed Consolidated Balance Sheets
(in millions, except shares)

	(Unaudited) August 31, 2013	May 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$345.4	$355.6
Accounts receivable, less allowance for doubtful accounts receivables of $32.7 ($33.5 at May 31, 2013)	524.5	531.8
Inventories	651.8	624.0
Deferred income taxes	118.0	119.9
Prepaid expenses and other	127.6	141.3
Total current assets	1,767.3	1,772.6
Property, plant and equipment, net	664.5	665.2
Investments	23.2	23.0
Intangible assets, net	3,558.0	3,630.2
Goodwill	3,596.8	3,600.9
Other assets	95.8	102.8
Total assets	$9,705.6	$9,794.7
Liabilities & Shareholders’ Equity		
Current liabilities:		
Current portion of long-term debt	$36.8	$40.3
Accounts payable	92.4	111.5
Accrued interest	40.0	56.2
Accrued wages and commissions	115.9	150.1
Other accrued expenses	205.3	206.0
Total current liabilities	490.4	564.1
Long-term liabilities:		
Long-term debt, net of current portion	5,935.0	5,926.1
Deferred income taxes	1,067.7	1,129.8
Other long-term liabilities	190.1	206.1
Total liabilities	7,683.2	7,826.1
Commitments and contingencies		
Shareholders’ equity:		
Common stock, par value $0.01 per share; 740,000,000 shares authorized; 552,387,966 and 552,359,416 shares issued and outstanding	5.5	5.5
Contributed and additional paid-in capital	5,666.5	5,662.0
Accumulated deficit	(3,661.9)	(3,693.0)
Accumulated other comprehensive income (loss)	12.3	(5.9)
Total shareholders’ equity	2,022.4	1,968.6
Total liabilities and shareholders’ equity	$9,705.6	$9,794.7

The accompanying notes are an integral part of the condensed consolidated financial statements.

Table of Contents

LVB Acquisition, Inc. and Subsidiaries Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(in millions)

	(Unaudited) For the Three Months Ended August 31, 2013	August 31, 2012
Net sales	$730.7	$707.4
Cost of sales	237.2	228.1
Gross profit	493.5	479.3
Selling, general and administrative expense	284.1	296.1
Research and development expense	37.5	35.8
Amortization	75.5	78.4
Operating income	96.4	69.0
Interest expense	87.6	117.1
Other (income) expense	2.2	37.5
Other expense, net	89.8	154.6
Income (loss) before income taxes	6.6	(85.6)
Provision (benefit) from income taxes	(24.5)	(54.1)
Net income (loss)	31.1	(31.5)
Other comprehensive income (loss), net of tax:		
Change in unrealized holding value on available-for-sale securities	—	0.8
Interest rate swap unrealized gains (losses)	13.5	(2.6)
Foreign currency related gains (losses)	4.5	23.2
Unrecognized actuarial gains (losses)	0.2	—
Other comprehensive income (loss)	18.2	21.4
Comprehensive income (loss)	$49.3	$(10.1)

The accompanying notes are an integral part of the condensed consolidated financial statements.

LVB Acquisition, Inc. and Subsidiaries Condensed Consolidated Statements of Cash Flows
(in millions)

	(Unaudited) Three Months Ended August 31, 2013	August 31, 2012
Cash flows provided by (used in) operating activities:		
Net income (loss)	$31.1	$(31.5)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	120.4	120.6
Amortization and write off of deferred financing costs	3.6	7.0
Stock-based compensation expense	4.2	19.1
Loss on extinguishment of debt	—	38.0
Recovery of doubtful accounts receivable	0.1	1.3
Deferred income taxes	(61.0)	(68.9)
Other	(3.9)	(1.3)
Changes in operating assets and liabilities, net of acquired assets:		
Accounts receivable	8.0	5.8
Inventories	(7.5)	(21.2)
Prepaid expenses	2.3	(4.2)
Accounts payable	(19.6)	(8.1)
Income taxes	17.0	(4.2)
Accrued interest	(16.2)	51.9
Accrued expenses and other	(27.7)	(18.8)
Net cash provided by operating activities	50.8	85.5
Cash flows provided by (used in) investing activities:		
Proceeds from sales/maturities of investments	9.5	—
Purchases of investments	(9.5)	—
Net proceeds from sale of assets	0.2	—
Capital expenditures	(46.5)	(53.1)
Acquisitions, net of cash acquired - Trauma Acquisition	—	(280.0)
Other acquisitions, net of cash acquired	(0.4)	(5.9)
Net cash used in investing activities	(46.7)	(339.0)
Cash flows provided by (used in) financing activities:		
Debt:		
Payments under European facilities	(2.3)	(0.4)
Payments under senior secured credit facilities	(8.3)	(8.5)
Proceeds under revolvers	2.3	—
Payments under revolvers	(5.0)	—
Proceeds from senior notes due 2020	—	1,000.0
Tender offer for senior notes due 2017	—	(581.7)
Payment of fees related to refinancing activities	(0.2)	(30.1)
Equity:		
Option exercise	0.3	—
Net cash provided by (used in) financing activities	(13.2)	379.3
Effect of exchange rate changes on cash	(1.1)	1.0
Increase (decrease) in cash and cash equivalents	(10.2)	126.8
Cash and cash equivalents, beginning of period	355.6	492.4
Cash and cash equivalents, end of period	$345.4	$619.2
Supplemental disclosures of cash flow information:		

Cash paid during the period for:		
Interest	$101.3	$62.5
Income taxes	$32.2	$22.0

The accompanying notes are an integral part of the condensed consolidated financial statements.

6

Table of Contents

Biomet, Inc. and Subsidiaries Condensed Consolidated Balance Sheets
(in millions, except shares)

	(Unaudited) August 31, 2013	May 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$345.4	$355.6
Accounts receivable, less allowance for doubtful accounts receivables of $32.7($33.5 at May 31, 2013)	524.5	531.8
Inventories	651.8	624.0
Deferred income taxes	118.0	119.9
Prepaid expenses and other	127.6	141.3
Total current assets	1,767.3	1,772.6
Property, plant and equipment, net	664.5	665.2
Investments	23.2	23.0
Intangible assets, net	3,558.0	3,630.2
Goodwill	3,596.8	3,600.9
Other assets	95.8	102.8
Total assets	$9,705.6	$9,794.7
Liabilities & Shareholder's Equity		
Current liabilities:		
Current portion of long-term debt	$36.8	$40.3
Accounts payable	92.4	111.5
Accrued interest	40.0	56.2
Accrued wages and commissions	115.9	150.1
Other accrued expenses	205.3	206.0
Total current liabilities	490.4	564.1
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Long-term debt, net of current portion	5,935.0	5,926.1
Deferred income taxes	1,067.7	1,129.8
Other long-term liabilities	190.1	206.1
Total liabilities	7,683.2	7,826.1
Commitments and contingencies		
Shareholder's equity:		
Common stock, without par value; 1,000 shares authorized; 1,000 shares issued and outstanding	—	—
Contributed and additional paid-in capital	5,672.0	5,667.5
Accumulated deficit	(3,661.9)	(3,693.0)
Accumulated other comprehensive income (loss)	12.3	(5.9)
Total shareholder's equity	2,022.4	1,968.6
Total liabilities and shareholder's equity	$9,705.6	$9,794.7

The accompanying notes are an integral part of the condensed consolidated financial statements.

Table of Contents

Biomet, Inc. and Subsidiaries Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(in millions)

	(Unaudited) For the Three Months Ended August 31, 2013	August 31, 2012
Net sales	$730.7	$707.4
Cost of sales	237.2	228.1
Gross profit	493.5	479.3
Selling, general and administrative expense	284.1	296.1
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Amortization	75.5	78.4
Operating income	96.4	69.0
Interest expense	87.6	117.1
Other (income) expense	2.2	37.5
Other expense, net	89.8	154.6
Income (loss) before income taxes	6.6	(85.6)
Provision (benefit) from income taxes	(24.5)	(54.1)
Net income (loss)	31.1	(31.5)
Other comprehensive income (loss), net of tax:		
Change in unrealized holding value on available-for-sale securities	—	0.8
Interest rate swap unrealized gains (losses)	13.5	(2.6)
Foreign currency related gains (losses)	4.5	23.2
Unrecognized actuarial gains (losses)	0.2	—
Other comprehensive income (loss)	18.2	21.4
Comprehensive income (loss)	$49.3	$(10.1)

The accompanying notes are an integral part of the condensed consolidated financial statements.

Table of Contents

Biomet, Inc. and Subsidiaries Condensed Consolidated Statements of Cash Flows
(in millions)

	(Unaudited) Three Months Ended	
	August 31, 2013	August 31, 2012
Cash flows provided by (used in) operating activities:		
Net income (loss)	$31.1	$(31.5)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	120.4	120.6
Amortization and write off of deferred financing costs	3.6	7.0
Stock-based compensation expense	4.2	19.1
Loss on extinguishment of debt	—	38.0
Recovery of doubtful accounts receivable	0.1	1.3
Deferred income taxes	(61.0)	(68.9)
Other	(3.9)	(1.3)
Changes in operating assets and liabilities, net of acquired assets:		
Accounts receivable	8.0	5.8
Inventories	(7.5)	(21.2)
Prepaid expenses	2.3	(4.2)
Accounts payable	(19.6)	(8.1)
Income taxes	17.0	(4.2)
Accrued interest	(16.2)	51.9
Accrued expenses and other	(27.7)	(18.8)
Net cash provided by operating activities	50.8	85.5
Cash flows provided by (used in) investing activities:		
Proceeds from sales/maturities of investments	9.5	—
Purchases of investments	(9.5)	—
Net proceeds from sale of assets	0.2	—
Capital expenditures	(46.5)	(53.1)
Acquisitions, net of cash acquired - Trauma Acquisition	—	(280.0)
Other acquisitions, net of cash acquired	(0.4)	(5.9)
Net cash used in investing activities	(46.7)	(339.0)
Cash flows provided by (used in) financing activities:		
Debt:		
Payments under European facilities	(2.3)	(0.4)
Payments under senior secured credit facilities	(8.3)	(8.5)
Proceeds under revolvers	2.3	—
Payments under revolvers	(5.0)	—
Proceeds from senior notes due 2020	—	1,000.0
Tender offer for senior notes due 2017	—	(581.7)
Payment of fees related to refinancing activities	(0.2)	(30.1)
Equity:		
Option exercise	0.3	—
Net cash provided by (used in) financing activities	(13.2)	379.3
Effect of exchange rate changes on cash	(1.1)	1.0
Increase (decrease) in cash and cash equivalents	(10.2)	126.8
Cash and cash equivalents, beginning of period	355.6	492.4
Cash and cash equivalents, end of period	$345.4	$619.2
Supplemental disclosures of cash flow information:		

Cash paid during the period for:		
Interest	$101.3	$62.5
Income taxes	$32.2	$22.0

The accompanying notes are an integral part of the condensed consolidated financial statements.

9

Table of Contents

LVB ACQUISITION, INC.
BIOMET, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)
Note 1—Basis of Presentation.
The accompanying unaudited condensed consolidated financial statements include the accounts of LVB Acquisition, Inc. (“LVB” and “Parent”) and Biomet, Inc. and its subsidiaries (individually and collectively with its subsidiaries referred to as “Biomet”, and together with LVB, the “Company”, “we”, “us” or “our”). Biomet is a wholly owned subsidiary of LVB. LVB has no other operations beyond its ownership of Biomet. Intercompany accounts and transactions have been eliminated in consolidation.
The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for condensed financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. As a result, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial condition, results of operations and cash flows for the periods presented have been included. Operating results for the three months ended August 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2014. For further information, including the Company’s significant accounting policies, refer to the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended May 31, 2013 (the “2013 Form 10-K”).
The May 31, 2013 condensed consolidated balances have been derived from the audited financial statements included in the 2013 Form 10-K.
Recent Accounting Pronouncements
There are no recent accounting pronouncements that the Company has yet to adopt that are expected to have a material effect on its financial position, results of operations or cash flows.

Note 2—Acquisition.
Trauma Acquisition
On May 24, 2012, DePuy Orthopaedics, Inc. accepted the Company’s binding offer to purchase certain assets representing substantially all of DePuy’s worldwide trauma business (the “Trauma Acquisition”), which involves researching, developing, manufacturing, marketing, distributing and selling products to treat certain bone fractures or deformities in the human body, including certain intellectual property assets, and to assume certain liabilities, for approximately $280.0 million in cash. The Company acquired the DePuy worldwide trauma business to strengthen its trauma business and to continue to build a stronger presence in the global trauma market. On June 15, 2012, the Company announced the initial closing of the transaction. During the first and second quarters of fiscal year 2013, subsequent closings in various foreign countries occurred on a staggered basis, with the final closing occurring on December 7, 2012.
The acquisition has been accounted for as a business combination. The preliminary purchase price was allocated to the acquired assets and liabilities based on the estimated fair value of the acquired assets at the date of acquisition.

The following table summarizes the purchase price allocation:

(in millions)		
Inventory	$93.7	
Prepaid expenses and other	2.1	
Instruments	29.2	
Other property, plant and equipment	7.2	
Liabilities assumed	(5.6	)
Intangible assets	141.5	

Goodwill	11.9
Purchase price	$280.0

Table of Contents

The results of operations of the business have been included subsequent to the respective country closing dates in the accompanying condensed consolidated financial statements. Acquisition-related costs for the three months ended August 31, 2012 were $6.9 million and are recorded in cost of sales and selling, general and administrative expenses. The goodwill value is not tax deductible.
The pro forma information required under Accounting Standards Codification 805 is impracticable to include due to different fiscal year ends and individual country closings.

Note 3—Inventories.
Inventories are stated at the lower of cost or market, with cost determined under the first-in, first-out method. The Company reviews inventory on hand and writes down excess and slow-moving inventory based on an assessment of future demand and historical experience. Inventories consisted of the following:

(in millions)	August 31, 2013	May 31, 2013
Raw materials	$76.0	$78.8
Work-in-process	47.6	44.7
Finished goods	528.2	500.5
Inventories, net	$651.8	$624.0

Note 4—Property, Plant and Equipment.
Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Depreciation of instruments is included within cost of sales. Related maintenance and repairs are expensed as incurred.
The Company reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows relating to the asset, or asset group, are less than its carrying value, with the amount of the loss equal to the excess of carrying value of the asset, or asset group, over the estimated fair value.
Useful lives by major product category consisted of the following:

	Useful life
Land improvements	20 years
Buildings and leasehold improvements	30 years
Machinery and equipment	5-10 years
Instruments	4 years

Property, plant and equipment consisted of the following:

Table of Contents

(in millions)	August 31, 2013	May 31, 2013
Land and land improvements	$40.4	$40.5
Buildings and leasehold improvements	110.3	106.3
Machinery and equipment	388.2	375.4
Instruments	732.8	710.5
Construction in progress	48.9	48.8
Total property, plant and equipment	1,320.6	1,281.5
Accumulated depreciation	(656.1)	(616.3)
Total property, plant and equipment, net	$664.5	$665.2

The Company recorded depreciation expense of $44.9 million and $42.2 million for the three months ended August 31, 2013 and 2012, respectively.

Note 5—Investments.

At August 31, 2013, the Company's investment securities were classified as follows:

(in millions)	Amortized Cost	Unrealized Gains	Losses	Fair Value
Available-for-sale:				
Equity securities	$0.2	$0.3	$—	$0.5
Time deposit	15.9	0.2	—	16.1
Greek bonds	1.1	4.0	—	5.1
Total available-for-sale investments	$17.2	$4.5	$—	$21.7

	Amortized Cost	Realized Gains	Losses	Fair Value
Trading:				
Equity securities	$1.5	$—	$—	$1.5
Total trading investments	$1.5	$—	$—	$1.5

At May 31, 2013, the Company's investment securities were classified as follows:

(in millions)	Amortized Cost	Unrealized Gains	Losses	Fair Value
Available-for-sale:				
Equity securities	$0.2	$0.2	$—	$0.4
Time deposit	15.9	0.1	—	16.0
Greek bonds	1.1	4.5	—	5.6
Total available-for-sale investments	$17.2	$4.8	$—	$22.0

	Amortized Cost	Realized Gains	Losses	Fair Value
Trading:				
Equity securities	$0.8	$0.2	$—	$1.0
Total trading investments	$0.8	$0.2	$—	$1.0

The Company recorded proceeds on the sales/maturities of investments of $9.5 million for the three months ended August 31, 2013 and no proceeds during the three months ended August 31, 2012. The Company purchased investments of $9.5 million during the three months ended August 31, 2013, with no purchases during the three months ended August 31, 2012.

12

Table of Contents

The Company holds Greek bonds which are designated as available-for-sale securities. The bonds have maturities ranging from 1 to 30 years. As of August 31, 2013, the face value of the bonds was $11.3 million.

Note 6—Goodwill and Other Intangible Assets.
The balance of goodwill as of August 31, 2013 and May 31, 2013 was $3,596.8 million and $3,600.9 million, respectively. The change in goodwill reflects foreign currency fluctuations, primarily the weakening of the Australian dollar against the U.S. dollar.
The Company uses an accelerated method for amortizing customer relationship intangibles, as the value for those relationships is greater at the beginning of their life. The accelerated method was calculated using historical customer attrition rates. The remaining finite-lived intangibles are amortized on a straight line basis. The decrease in the net intangible asset balance is primarily due to amortization, partially offset by the strengthening of the euro against the U.S. dollar.
The Company performs its annual assessment for impairment as of March 31 for all reporting units, or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The estimates and assumptions underlying the fair value calculations used in the Company's annual impairment tests are uncertain by their nature and can vary significantly from actual results. Factors that management must estimate include, but are not limited to, industry and market conditions, sales volume and pricing, raw material costs, capital expenditures, working capital changes, cost of capital, and tax rates. These factors are especially difficult to predict when global financial markets are volatile. The estimates and assumptions used in its impairment tests are consistent with those the Company uses in its internal planning. These estimates and assumptions may change from period to period. If the Company uses different estimates and assumptions in the future, impairment charges may occur and could be material.

Intangible assets consisted of the following at August 31, 2013 and May 31, 2013:

(in millions)	August 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core technology	$1,733.9	$(500.6)	$1,233.3
Completed technology	580.4	(229.4)	351.0
Product trade names	205.4	(68.9)	136.5
Customer relationships	2,384.5	(855.7)	1,528.8
Non-compete contracts	4.6	(4.1)	0.5
Sub-total	4,908.8	(1,658.7)	3,250.1
Corporate trade names	307.9	—	307.9
Total	$5,216.7	$(1,658.7)	$3,558.0

(in millions)	May 31, 2013					
	Gross Carrying Amount	Impairment Charge	New Carrying Amount	Accumulated Amortization	Impairment Charge	Net Carrying Amount
Core technology	$1,772.6	$(39.0)	$1,733.6	$(481.1)	$4.1	$1,256.6
Completed technology	628.8	(48.5)	580.3	(254.9)	36.7	362.1
Product trade names	204.2	—	204.2	(65.9)	—	138.3
Customer relationships	2,429.5	(46.1)	2,383.4	(828.4)	9.9	1,564.9
Non-compete contracts	4.6	—				

Capital expenditures	(313)	(540)
	(24,650)	(18,094)

Purchases of available for sale securities		
Proceeds from maturities of available for sale securities	5,181	2,705
Net cash used in investing activities	(19,782)	(15,929)
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,843	2,476
Repurchases of common stock		(8,118)
Net cash provided by (used in) financing activities	1,843	(5,642)
Effect of exchange rate changes on cash and cash equivalents	(17)	8
Net increase (decrease) in cash and cash equivalents	2,817	(784)
Cash and cash equivalents, beginning of period	14,536	24,895
Cash and cash equivalents, end of period	$ 17,353	$ 24,111
Supplemental Cash Flow Information:		
Cash paid for income taxes	$ 1,637	$ 959
Non-cash investing activities:		
Inventory transferred to deferred costs under operating leases	$ 2,612	$ 1,203

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

26

VISX, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

1. Significant Accounting Policies

Basis of Presentation. We prepared our Condensed Consolidated Interim Financial Statements in conformity with Securities and Exchange Commission rules and regulations. Accordingly, we condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. Please read our 2004 Annual Report on Form 10-K to gain a more complete understanding of these interim financial statements.

We included in these interim financial statements all adjustments (consisting primarily only of normal recurring adjustments) that in our opinion are necessary to present fairly our results for the interim period. Our interim financial statements have not been audited.

Earnings Per Share. Basic earnings per share (EPS) equals net income divided by the weighted average number of common shares outstanding. Diluted EPS equals net income divided by the weighted average number of common shares outstanding plus dilutive potential common shares calculated in accordance with the treasury stock method. All amounts in the following table are in thousands, except per share data, and are unaudited.

	Three Months Ended March 31,	
	2005	**2004**
Net income	$ 14,679	$ 11,756
Basic earnings per share		
Net income	$ 14,679	$ 11,756
Weighted average common shares outstanding	50,007	48,672
Basic Earnings Per Share	$ 0.29	$ 0.24
Diluted earnings per share		
Net income	$ 14,679	$ 11,756
Weighted average common shares outstanding	50,007	48,672
Dilutive potential common shares from stock options	1,742	1,761

Weighted average common shares and dilutive potential common shares	51,749	50,433
Diluted Earnings Per Share	$ 0.28	$ 0.23

Options to purchase 1,622,258 and 2,172,000 shares with a weighted average exercise price of $37.37 and $33.80, during the three-month periods ended March 31, 2005 and 2004, respectively, were excluded from the computation of diluted EPS because the options exercise prices were greater than the average market price of our common stock during these periods and would have been anti-dilutive.

Stock-Based Employee Compensation. We account for stock-based employee compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and Financial Accounting Standards Board (FASB) Interpretation No. 44 (FIN 44), Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB No. 25 and comply with the disclosure provisions of Statement of Financial Accounting Standards No. 148, Accounting For Stock-Based Compensation Transition and Disclosure (SFAS 148). In accordance with APB 25 and FIN 44, we record no stock-based employee compensation cost in our net income because (1) all options granted under our stock option plans have an exercise price equal to the market value of the underlying common stock on the date of grant and (2) stock

VISX, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

March 31, 2005

(Unaudited)

purchased through our Employee Stock Purchase Plan is priced at 85% of the fair market value of the stock on the first day of a two-year offering period or as of the end of each six month purchase segment of a two year offering period, whichever is lower. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), to stock-based employee compensation (unaudited, in thousands, except per share data).

		Three Months Ended March 31,	
		2005	**2004**
Net Income	As Reported	$ 14,679	$ 11,756
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(1,437)	(1,947)
Net Income	Pro Forma	$ 13,242	$ 9,809
Basic Earnings Per Share	As Reported	$ 0.29	$ 0.24
	Pro Forma	0.26	0.20
Diluted Earnings Per Share	As Reported	$ 0.28	$ 0.23
	Pro Forma	0.26	0.20

For purposes of computing pro forma net income, we estimate the fair value of each option grant and employee stock purchase plan purchase right on the date of grant using the Black-Scholes option pricing model. The assumptions used to value the option grants and purchase rights are stated as follows:

	Options granted in the three months ended March 31,	
	2005	**2004**
Expected life of options (in years)		5.36
Expected life of ESPP rights (in years)	1.25	1.25
Volatility for options		72%
Volatility for ESPP rights	54%	59%
Risk free interest rate for options		2.86%
Risk free interest rate for ESPP rights	2.61%	1.71%

Dividend yield	0.0%

Under the terms of the merger agreement with Advanced Medical Optics, Inc. (AMO), we are precluded from granting stock options to our employees or to other parties. Accordingly, there were no options granted under our stock option plans during the three month period ended March 31, 2005. The weighted average fair value of options granted under our stock option plans during the three month period ended March 31, 2004 was $12.34. The weighted average fair value per share of options granted under the ESPP during the three month periods ended March 31, 2005 and 2004 was $9.31 and $4.30, respectively.

These pro forma amounts may not be representative of the effects on net income in future years following our adoption of Statement of Financial Accounting Standards No. 123(R), Share Based Payment (SFAS No. 123(R)) as options vest over several years and additional awards are generally made each year.

28

VISX, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

March 31, 2005

(Unaudited)

2. Segment Reporting

Segments. Statement of Financial Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information, (SFAS No. 131) established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or chief operating decision making group, in deciding how to allocate resources and in assessing performance. Our Chief Executive Officer is our chief operating decision maker. Our business is focused on one operating segment, products and procedures to improve people s vision with laser vision correction. All of our revenues and profits are generated through the sale, licensing, and service of products for this one segment.

Export Revenues. Export revenues accounted for 17% and 14% of total revenues for the three month periods ended March 31, 2005 and 2004 respectively. We did not generate export revenues to any country that equaled or exceeded 10% of our total revenues for either of the three month periods ended March 31, 2005 and 2004. In the following table we have presented our export revenues by geographic region (in thousands):

	Three months ended March 31,	
	2005	**2004**
	(Unaudited)	
Europe	$ 2,119	$ 1,980
Americas (excluding the United States)	827	895
Asia and Other	5,975	3,140
	$ 8,921	$ 6,015

Substantially all of our long-term assets are located in the United States.

Major Customers. A significant portion of our revenues is derived from sales to TLC Vision Corporation (TLC). Sales to TLC and its operating subsidiaries accounted for 16% and 20% of total revenues in the first quarter of 2005 and 2004, respectively. TLC accounted for 23% and 21% of our total receivables at March 31, 2005 and December 31, 2004, respectively. Additionally, Taiwan Hwa-In Corporation, one of our Asian distributors, accounted for 10% and 12% of our total receivables at March 31, 2005 and December 31, 2004, respectively.

3. Inventories

Components of inventories are as follows (in thousands):

	March 31, 2005	December 31, 2004
	(Unaudited)	
Raw materials and subassemblies	$ 8,786	$ 9,113
Work-in-process	2,281	2,723
Finished goods	2,144	2,419
	$ 13,211	$ 14,255

VISX, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

March 31, 2005

(Unaudited)

4. Comprehensive Income

We report components of comprehensive income in our annual consolidated statements of stockholders equity. Components of comprehensive income (unaudited, in thousands):

	Three Months Ended March 31,	
	2005	2004
Net income	$ 14,679	$ 11,756
Other comprehensive income (net of tax effects) Increase (decrease) in accumulated unrealized holding gains on available-for-sale securities	(257)	58
Change in accumulated foreign currency translation adjustment	(37)	11
Comprehensive income	$ 14,385	$ 11,825

5. Warranty Obligations

Changes in product warranty obligations for the periods ended March 31, 2005 and 2004 are as follows (unaudited, in thousands):

	Three Months Ended March 31,	
	2005	2004
Balance as of the beginning of the period	$ 1,136	$ 1,779
Expense accrued (recoveries recognized)	454	(14)
Cost of services provided	(550)	(419)
Balance as of the end of the period	$ 1,040	$ 1,346

6. Stockholders Equity

On April 4, 2001, our Board of Directors authorized a stock repurchase program under which up to 10 million shares of VISX common stock may be repurchased. In accordance with this authorization and applicable securities laws, we have repurchased 7.8 million shares on the open market cumulatively through March 31, 2005, at a total cost of $106.8 million. Accordingly, 2.2 million shares remain available as of March 31, 2005 for repurchase under the Board of Directors April 2001 authorization. On May 28, 2003, the Board of Directors authorized the repurchase of an additional 3.5 million shares of VISX stock at a total cost of $63.0 million, all of which were purchased during the quarter ended June 30, 2003. Before repurchasing shares we consider a number of factors including market conditions, the market price of the stock, and the number of shares needed for employee benefit plans. Under the terms of the merger agreement with AMO, we are precluded from repurchasing any of our outstanding common stock on the open market. Accordingly, we did not repurchase any of our common stock in the three month period ended March 31, 2005.

7. New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R). This standard requires expensing of stock options and other share-based payments and supercedes the FASB s earlier rule (the original SFAS 123) that allowed companies to choose between expensing stock options or showing pro forma disclosure only. We currently show the pro forma disclosures in Note 1 to these condensed consolidated interim financial statements. In April 2005, the SEC approved a new rule to delay the effective date of SFAS 123(R) to annual periods that commence after June 15, 2005. We will be required to implement the new pronouncement and begin recording share-based expense at the beginning of the first quarter of fiscal 2006. Although we have not yet determined whether the adoption of the SFAS 123(R) will

VISX, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

March 31, 2005

(Unaudited)

result in amounts that are similar to the current pro forma disclosures under SFAS 123, we expect the adoption of SFAS 123(R) to have a significant adverse impact on our consolidated operating results.

8. Litigation

On or about November 12, 2004, two putative class action lawsuits were filed in the Superior Court of the State of California, County of Santa Clara, against VISX and the VISX Board of Directors. The cases were captioned William Kinchy vs. VISX, Incorporated, et al., Case No. 104CV030447 and Douglas Shearer vs. VISX, Incorporated, et al., Case No. 104CV030452. On January 27, 2005, the court ordered the two cases consolidated under the Kinchy case. On January 28, 2005, William Kinchy filed an amended complaint that alleges, among other things, that the VISX Board of Directors and certain executive officers breached their fiduciary duties of loyalty and due care by approving the merger agreement with AMO and the merger contemplated by the merger agreement without undertaking sufficient efforts to obtain the best offer possible for stockholders. The complaint further alleges that the consideration to be paid in the merger is unfair and inadequate, and that the defendants breached their fiduciary duties of care, loyalty and candor to VISX s public stockholders in connection with the merger. The complaint seeks an injunction prohibiting VISX from consummating the merger and rights of rescission against the merger and any of the terms of the merger agreement, as well as attorneys fees and costs.

On March 14, 2005, we reached an agreement in principle with plaintiff s counsel pursuant to which plaintiff will release the defendants, as well as AMO and certain VISX agents and affiliates, from all claims that have been brought or could have been brought under state or federal law arising out of or relating to the merger. The settlement agreement remains subject to approval by the Superior Court of the State of California for the County of Santa Clara, which is not expected to be obtained prior to the completion of the merger. Under the agreement in principle, we agreed to make certain additional disclosures that have been included in the joint proxy statement/prospectus. In addition, we have agreed that we will not oppose a fee application by plaintiff s counsel of up to $500,000. As of March 31, 2005 we have recorded all costs that we expect to incur in connection with the proposed settlement. The settlement does not contemplate any changes to the merger agreement or the merger.

In or about October 2001, we terminated a Development and Supply Agreement with Aculight Corporation (the Agreement). The Agreement requires that before any party may commence litigation for any controversy or claim arising under the Agreement, such claim must first be submitted to nonbinding mediation. Aculight has corresponded with us concerning a claim that it is owed approximately $1.9 million in cancellation fees by virtue of our termination of the Agreement. We deny that any amounts are owed because Aculight was in breach of certain obligations under the Agreement at the time of termination; Aculight contends that it did not breach any such obligations. Aculight demanded mediation of this dispute pursuant to the Agreement, and in January 2005, we scheduled mediation before Judicial Arbitration and Mediation Services (JAMS) for March 25, 2005. This mediation is currently ongoing with no agreement having yet been reached. While it is not feasible to predict or determine with certainty the final outcome of the mediation, or any lawsuit filed by Aculight if the parties dispute is not resolved by mediation, we believe any such lawsuit would be without merit, and that the mediation or lawsuit would not be likely to give rise to any liability that would materially affect our financial condition or results of operations.

We are involved in various other legal proceedings and disputes that arise in the normal course of business. These matters include product liability actions, contract disputes and other matters. Based on currently available information, we believe we have meritorious defenses to these actions and that resolution of these cases is not likely to have a material adverse effect on our business, financial position or future results of operations.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements are presented to illustrate the estimated effects of our acquisition of Pfizer s ophthalmic surgical business in June 2004, the VISX merger in May 2005 and, in each case, the related financing transactions (collectively, the Transactions) on our historical financial position and our results of operations. We have derived our historical consolidated financial data for the year ended December 31, 2004 from our audited consolidated financial statements incorporated by reference herein (adjusted to give pro forma effect to our acquisition of Pfizer s ophthalmic surgical business as described in the accompanying notes). We have derived our historical consolidated financial data as of and for the three months ended March 25, 2005 from our unaudited condensed consolidated financial statements incorporated by reference herein. We have derived VISX s historical consolidated financial data for the year ended December 31, 2004 from VISX s audited consolidated financial statements, and have derived VISX s historical consolidated financial data as of and for the three months ended March 31, 2005 from VISX s unaudited condensed consolidated financial statements, in each case which are available in the reports that were previously filed by VISX with the SEC.

The unaudited pro forma condensed combined statements of operation for the year ended December 31, 2004 and the three months ended March 25, 2005 assume that the Transactions took place on January 1, 2004. The unaudited pro forma condensed combined balance sheet as of March 25, 2005 assumes that the Transactions took place on that date. The information presented in the unaudited pro forma condensed combined financial statements does not purport to represent what our financial position or results of operations would have been had the Transactions occurred as of the dates indicated, nor is it indicative of our future financial position or results of operations for any period. In addition, AMO, Pfizer s ophthalmic surgical business and VISX may have performed differently had they always been combined. You should not rely on this information as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience after the VISX merger.

The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. A final determination of fair values relating to the VISX merger may differ materially from the preliminary estimates and will include management s final valuation of the fair value of assets acquired and liabilities assumed. This final valuation will be based on the actual net tangible assets of VISX that exist as of the date of the completion of the VISX merger. The final valuation may change the allocations of the purchase price, which could affect the fair value assigned to the assets and liabilities and could result in a change to the unaudited pro forma condensed combined financial statements data.

These unaudited pro forma condensed combined financial statements should be read in conjunction with the accompanying notes and assumptions and the historical consolidated financial statements and related notes contained in the annual, quarterly and other reports filed by us and VISX with the SEC.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

AS OF MARCH 25, 2005

	Historical AMO	Historical VISX	Pro Forma Adjustments (1)	Pro Forma Combined
		(In thousands)		
Assets				
Current Assets:				
Cash and cash equivalents	$ 25,858	$ 17,353	$ (176,167)(9)	$ 50,741
			200,000(7)	
			(16,303)(8)	
Short-term investments		143,084		143,084
Trade receivables, net	198,311	34,965		233,276
Inventories	97,297	13,211		110,508
Other current assets	53,835	21,568	(3,420)(12)	71,983
Total current assets	375,301	230,181	4,110	609,592
Property, plant and equipment, net	113,700	3,784		117,484
Other assets	51,302	11,733	538(7)	63,573
Intangibles, net	137,268		397,400(3)	534,668
Goodwill	375,617		521,133(1)	896,750
Total assets	$ 1,053,188	$ 245,698	$ 923,181	$ 2,222,067
Liabilities and Stockholders Equity				
Current liabilities:				
Current portion of long-term debt	$ 9,450	$	$ 200,000(7)	$ 209,450
Accounts payable	75,425	6,537		81,962
Accrued compensation	21,233		9,017(13)	30,250
Other accrued expenses	82,368	44,277	(1,377)(4)	125,268
Total current liabilities	188,476	50,814	207,640	446,930
Long-term debt, net of current portion	550,643			550,643
Other liabilities	53,349		156,440(5)	209,789
Total liabilities	792,468	50,814	364,080	1,207,362
Stockholders equity:				
Preferred stock				
Common stock	372	650	(650)(2)	650
			278(2)	
Additional paid-in-capital	312,974	199,951	(199,951)(2)	1,515,881
			1,202,907(2)	
Retained earnings (accumulated deficit)	(90,563)	235,039	(235,039)(2)	(539,763)
			(449,200)(6)	
Accumulated other comprehensive income (loss)	37,960	(361)	361(2)	37,960
Less treasury stock, at cost	(23)	(240,395)	240,395(2)	(23)
Total stockholders equity	260,720	194,884	559,101	1,014,705
Total liabilities and stockholders equity	$ 1,053,188	$ 245,698	$ 923,181	$ 2,222,067

See accompanying notes to unaudited pro forma condensed combined financial statements.

Notes to Unaudited Pro Forma Condensed Combined Balance Sheet

(1) Under the purchase method of accounting, the total estimated consideration as shown in the table below is allocated to VISX s tangible and intangible assets and liabilities based on their estimated fair values as of the date of completion of the VISX merger. The preliminary estimated consideration is allocated as follows:

	Amount (In thousands)
Calculation of consideration:	
Cash consideration to VISX stockholders (9)	$ 176,167
Fair value of our shares issued to VISX stockholders (10)	1,136,605
Fair value of vested VISX stock options (11)	66,580
Estimated direct transaction fees and expenses	15,765
Total consideration	1,395,117
Preliminary allocation of consideration:	
Book value of VISX s net assets	(194,884)
Adjustments to historical net book value:	
Intangible assets (3)	(397,400)
Other accrued expenses (4)	(1,377)
Other current assets (12)	3,420
Accrued severance (13)	9,017
Non-current deferred tax liability (5)	156,440
In-process research and development (6)	(449,200)
Adjustment to goodwill	$ 521,133

A final determination of fair values may differ materially from the preliminary estimates and will include management s final valuation of the fair values of assets acquired and liabilities assumed. This final valuation will be based on the actual net tangible assets of VISX that exist as of the date of the completion of the VISX merger. The final valuation may change the allocations of purchase price, which could affect the fair value assigned to the assets and liabilities and could result in a change to the unaudited pro forma condensed combined financial statements data.

(2) Represents the acquisition of 100% of the equity of VISX in exchange for 0.552 shares of our common stock and includes the elimination of VISX s historical equity accounts at March 31, 2005. Also includes the estimated fair value of AMO s shares issued to VISX stockholders and vested VISX stock options of $1,136.6 million and $66.6 million, respectively.

(3) Of the total estimated purchase price, $303.2 million has been allocated to technology rights and customer relationships that are expected to be amortized over a weighted average life of 11.4 years and $94.2 million has been allocated to tradename with an indefinite life. This adjustment is preliminary and is based on our management s estimates. The amount ultimately allocated to intangible assets may differ materially from this preliminary allocation. A $50.0 million increase or decrease in value allocated to technology rights and customer relationships would increase or decrease annual amortization by approximately $4.4 million.

Identification and allocation of value to the identified intangible assets was based on the provisions of Statement of Financial Accounting Standard No. 141, Business Combinations, (FAS 141). The fair value of the identified intangible assets was estimated by performing a discounted cash flow analysis using the income approach. This method includes a forecast of direct revenues and costs associated with the respective intangible assets and charges for economic returns on tangible and intangible assets utilized in cash flow generation. Net cash flows attributable to the identified intangible assets are discounted to their present value at a rate commensurate with the perceived risk. The projected cash flow assumptions considered contractual relationships, customer attrition, eventual development of new technologies and market competition.

The estimates of expected useful lives are based on guidance from FAS No. 141 and take into consideration the effects of competition, regulatory changes and possible obsolescence. The useful lives of technology rights are based on the number of years in which net cash flows have been projected. The useful lives of customer relationships was estimated based upon the length of the contracts currently in place, probability based estimates of contract renewals in the future and natural growth and diversification of other potential customers, which were considered insignificant. Management considers the VISX trade name to be the dominant name in excimer laser vision correction procedures. VISX s estimated market share of 60 percent demonstrates its commercial success. Management intends to maintain and continue to market existing and new products under the VISX trade name. As management intends to continue to use the VISX trade name indefinitely, an indefinite life was assigned.

Assumptions used in forecasting cash flows for each of the identified intangible assets included consideration of the following:

- VISX historical operating margins;
- Number of procedures and devices VISX has developed and had approved by the FDA;
- VISX market share;
- Contractual and non-contractual relationships with large groups of surgeons; and
- Patents and exclusive licenses held.

A history of operating margins and profitability, a strong scientific, service and manufacturing employee base and a dominant presence in the excimer laser market were among the factors that contributed to a purchase price resulting in the recognition of goodwill.

(4) Represents deferred revenue not considered an assumed liability and recording a fair value lease liability.

(5) The estimated impact on deferred tax liabilities of purchase accounting adjustments of $156.4 million. The estimate of deferred tax liabilities was determined based on the estimated excess book basis over the estimated tax basis of identifiable intangible assets acquired at an estimated statutory rate of approximately 39%. This adjustment is preliminary and subject to change based upon management s final valuation of the fair values of identifiable intangible assets acquired.

(6) Represents the estimated charge for in-process research and development of $449.2 million. This adjustment is preliminary and is based on our management s estimates. The amount ultimately allocated to in-process research and development may differ from this preliminary allocation. This amount has been excluded from the unaudited pro forma condensed combined statements of operations as such charge is non-recurring.

Ongoing research and development of new laser vision correction procedures (hyperopic presbyopia and custom high myopia procedures) accounts for approximately 90% of this charge. The balance relates to new equipment technologies in development (for example cyclotorsional tracking of the eye). Both new procedures are in FDA clinical trials, with the custom high myopia trial near completion and the hyperopic presbyopia trial in an early stage. New equipment technologies (such as cyclotorsional tracking of the eye) are in different stages of research and development.

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 between 18-20%. The following assumptions underlie these estimates.

A custom high myopia procedure is forecast to be approved for sale in the U.S. in 2005. A procedure to treat hyperopic presbyopia is forecast to be approved for sale in the U.S. in 2007. Additional research and development expenses for these procedures are expected to range from $5 million to $7 million. This range represents management s best estimate as to the additional R&D expenses required to bring these products to market in the U.S.

Products based on new equipment technologies are forecast to first be available for sale in 2005 and 2006. Additional research and development expenses in the range of $12 million to $14 million represents management s best estimate as to the additional R&D expenses to bring these products to market.

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

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 developmental R&D 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.

The major risks and uncertainties associated with the timely and successful completion of the 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.

(7) Represents additional borrowings incurred to fund the cash portion of the VISX Acquisition and deferred financing costs of $0.5 million incurred.

(8) Represents expected payment for deferred financing costs and direct transaction fees and expenses net of amounts already paid.

(9) Cash consideration to VISX stockholders based upon 50.3 million VISX shares outstanding as of May 27, 2005 at $3.50 per share plus cash consideration for fractional shares.

(10) Our share equivalent of VISX shares outstanding assumes an exchange ratio of 0.552 based on the terms of the Merger Agreement. The fair value of the 27.8 million shares issued is based on a market value of $40.90 per share of our common stock, which is the average of the quoted market price of our common stock for the period beginning two trading days before and ending two trading days after the VISX merger was announced.

(11) Represents the intrinsic value of the converted VISX stock options which is calculated as the difference between $40.90, the average of the quoted market price of our stock for the period beginning two days before and ending two days after the VISX merger was announced, and the exercise price of the converted VISX stock options.

(12) Represents deferred costs associated with the deferred revenue not assumed in the VISX merger.

(13) Represents severance payments due to certain executives of VISX as a result of the VISX merger.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Pro Forma AMO(1)	Historical VISX	Pro Forma Adjustments	Pro Forma Combined
	(In thousands, except per share amounts)			
Net sales	$ 816,976	$ 165,858	$	$ 982,834
Cost of sales	300,914	42,386		343,300
Gross profit	516,062	123,472		639,534
Selling, general and administrative	357,781	42,483	26,524(2)	426,788
Research and development	47,040	21,437		68,477
Operating income	111,241	59,552	(26,524)	144,269
Non-operating expense (income)				
Interest expense	24,503		11,394(3)	35,897
Unrealized loss on derivative instruments	403			403
Other, net	(273)	(2,035)		(2,308)
Earnings before income taxes	86,608	61,587	(37,918)	110,277
Provision for income taxes	30,312	23,145	(14,860)(4)	38,597
Net earnings	$ 56,296	$ 38,442	$ (23,058)	$ 71,680
Net earnings per share:				
Basic	$ 1.53	$ 0.78		$ 1.11
Diluted	$ 1.44	$ 0.76		$ 1.05
Weighted average number of shares outstanding:				
Basic	36,733	49,229		64,520(5)
Diluted	39,277	50,869		68,122(6)

See accompanying notes to unaudited pro forma financial statements.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

FOR THE QUARTER ENDED MARCH 25, 2005

	AMO	Historical VISX	Pro Forma Adjustments	Pro Forma Combined
	(In thousands, except per share amounts)			
Net sales	$ 192,519	$ 51,339	$	$ 243,858
Cost of sales	70,439	12,539		82,978
Gross profit	122,080	38,800		160,880
Selling, general and administrative	83,815	10,510	6,631(2)	100,956
Research and development	12,352	5,172		17,524
Operating income	25,913	23,118	(6,631)	42,400
Non-operating expense (income)				
Interest expense	5,827		2,849(3)	8,676
Unrealized gain on derivative instruments	(531)			(531)
Other, net	(331)	(890)		(1,221)
Earnings before income taxes	20,948	24,008	(9,480)	35,476
Provision for income taxes	7,122	9,329	(4,389)(4)	12,062
Net earnings	$ 13,826	$ 14,679	$ (5,091)	$ 23,414
Net earnings per share:				
Basic	$ 0.37	$ 0.29		$ 0.36
Diluted	$ 0.35	$ 0.28		$ 0.34
Weighted average number of shares outstanding:				
Basic	37,119	50,007		64,906(5)
Diluted	39,815	51,749		68,660(6)

See accompanying notes to unaudited pro forma financial statements.

Notes to Unaudited Pro Forma Condensed Statement of Operations

(1) Our pro forma results have been adjusted to give pro forma effect to the acquisition of Pfizer s ophthalmic surgical business as if that transaction had occurred on January 1, 2004.

The total estimated cost of the acquisition was as follows (in thousands):

Cash consideration to Pfizer Inc	$ 450,000
Direct costs	7,399
Cash acquired	(690)
Total purchase price	$ 456,709

The above purchase price has been preliminarily allocated based on an estimate of the fair values of assets acquired and liabilities assumed. The final valuation of net assets is expected to be completed as soon as possible, but no later than one year from the acquisition date in accordance with generally accepted accounting principles.

The purchase price has been allocated based on our management s estimates as follows (in thousands):

Inventories	$ 52,411
Other current assets	350
Property, plant and equipment	39,066
Intangible assets	135,900
In-process research and development	28,100
Goodwill	255,171
Current liabilities	(14,601)
Non-current liabilities	(655)
Non-current deferred tax liability	(39,033)
Net assets acquired	$ 456,709

Of the $135.9 million of acquired intangible assets, $121.0 million was assigned to developed technology rights that have a weighted-average useful life of approximately 12.7 years and $14.9 million was assigned to a trademark with a useful life of approximately 13.5 years. Annual amortization of intangible assets is expected to be approximately $10.7 million. Approximately $11.6 million of the goodwill is expected to be deductible for tax purposes. A history of operating margins and profitability, a strong scientific employee base and a strong presence in the viscoelastic market were among the factors that contributed to a purchase price resulting in the recognition of goodwill.

(2) Reflects amortization of intangibles related to management s preliminary estimate of the fair value of intangible assets acquired. This adjustment is preliminary and based on management s estimates. The amount ultimately allocated to intangible assets may differ materially from this preliminary allocation and will be based on management s final valuation of the acquired intangible assets.

(3) Reflects interest expense of additional borrowings incurred to fund the cash portion of the VISX merger and related costs. The pro forma interest expense arising from the additional borrowings has been computed based upon $200.0 million aggregate borrowings and an average interest rate of 5.63%. Also includes amortization of deferred financing costs ($0.1 million per annum).

(4) Reflects the pro forma tax effect of the above adjustments to yield an estimated combined effective tax rate of 35% and 34% for the year ended December 31, 2004 and the three months ended March 25, 2005, respectively.

(5) Reflects the issuance of 27.8 million shares of our common stock to VISX shareholders.

(6) Reflects the issuance of 27.8 million shares of our common stock to VISX shareholders and the dilutive effect of our stock options exchanged for VISX stock options of 1.1 million shares.

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Historical AMO	Historical Pfizer	Pro Forma Adjustments(1)	Pro Forma AMO
	(In thousands, except per share data)			
Net Sales	$ 742,099	$ 74,877	$	$ 816,976
Cost of sales	306,164	21,623	(26,873)(2)	300,914
Gross profit	435,935		26,873	516,062
Selling, general and administrative	329,197	32,152	(3,568)(3)	357,781
Research and development	73,716	1,424	(28,100)(4)	47,040
Operating income	33,022		58,541	111,241
Non-operating expense (income):				
Interest expense	26,933		4,070(5)	24,503
			(6,500)(6)	
Unrealized loss on derivative instruments	403			403
Loss due to exchange of 3 1/2 Convertible Senior Subordinated Notes due 2003	116,282		(116,282)(7)	
Other, net	10,620		(10,893)(8)	(273)
Earnings (loss) before income taxes	(121,216)		188,146	86,608
Provisions for income taxes	8,154		22,158(9)	30,312
Net earnings (loss)	$ (129,370)		$ 165,988	$ 56,296
Business total direct expenses		55,199		
Direct revenue in excess of direct expenses		$ 19,678		
Net earnings (loss) per share:				
Basic	$ (3.89)			$ 1.53
Diluted	$ (3.89)			$ 1.44(11)
Weighted average number of shares outstanding:				
Basic	33,284			36,733(10)
Diluted	33,284			39,277(11)

See accompanying notes to unaudited pro forma condensed combined financial statements.

Notes to Unaudited Pro Forma Condensed Combined Statement of Operations

(1) Reclassifications between cost of sales and selling, general and administrative expense have been made to the historical presentation of Pfizer s ophthalmic surgical business, which is referred to as the Pfizer Business, in order to conform to the pro forma condensed combined presentation.

(2) Reflects a $28.1 million decrease related to the sale of acquired inventory adjusted to fair value, a $0.3 million decrease in depreciation expense related to management s estimate of the fair value of property, plant and equipment and a $1.5 million increase related to the reclassification of direct distribution costs included in selling, general and administrative expenses of the Pfizer Business.

(3) Reflects a $1.5 million decrease related to the reclassification of direct distribution costs included in selling, general and administrative expenses of the Pfizer Business and a $2.0 million decrease in amortization of intangibles related to our management s estimate of the fair value of intangible assets acquired. The $2.0 million decrease in amortization of intangibles is estimated based upon expected amortization for the year of $10.7 million compared to amortization of $12.7 million included in our historical and Pfizer s historical statements of operations.

(4) Reflects the adjustment to decrease research and development expense by the $28.1 million in-process research and development charge resulting from the application of purchase accounting to the acquisition of the Pfizer Business.

(5) Reflects pro forma interest expense resulting from our new debt capital structure implemented at the end of the second quarter of 2004 based on LIBOR of 1.58% as of December 31, 2004, as follows:

	Year Ended December 31, 2004
	(In thousands)
Pro forma adjustment to interest expense:	
2.50% convertible senior subordinated notes(a)	$ 4,375
Term loan(b)	4,788
Amortization of deferred financing costs(c)	1,562
Pro forma interest expense	10,725
Less interest expense on existing debt refinanced:	
3 1/2% convertible senior subordinated notes	(3,141)
9 1/4% senior subordinated notes	(3,094)
Repayment of Japan term loan	(420)
Pro forma adjustment	$ 4,070

(a) Reflects pro forma interest expense on the $350.0 million of outstanding 2.50% convertible senior subordinated notes due 2024, which are referred to as the 2.50% Notes, at an interest rate of 2.50%.

(b) Reflects pro forma interest expense on the $250.0 million term loan under our senior credit facility at an assumed interest rate of LIBOR plus 2.25%. A 0.125% change in interest rates would result in a change in the pro forma interest expense of $0.3 million related to the floating interest rate of the term loan.

(c) Reflects amortization of deferred financing fees over the expected term of the related instrument (five years for the term loan and five and a half years for the 2.50% Notes).

(6) Reflects the adjustment to decrease interest expense for the write-off of deferred financing fees, original discount and recognition of realized gains on interest rate swaps and the commitment fee paid to senior credit facility lenders resulting from the tender offer and

consent solicitation, the private exchanges and the repayment of the Japan term loan aggregating $6.5 million, as such amounts are not expected to have a continuing impact on our operations and relate directly to the acquisition.

(7) Reflects the adjustment for $89.1 million relating to the value of equity issued in excess of conversion price in the private exchanges and $27.2 million of premium paid in the private exchanges.

(8) Reflects the adjustment to decrease Other, net by $10.8 million of tender offer premium and consent payments for the 9 1/4% senior subordinated notes and $0.1 million of other debt extinguishment costs, as such amounts are not expected to have a continuing impact on our operations and relate directly to the acquisition.

(9) Reflects the pro forma tax effect of the above adjustments at an estimated combined effective tax rate of 35% for the year ended December 31, 2004.

(10) Reflects the issuance of 7.0 million shares of our common stock in the private exchanges less the 3.6 million weighted average shares related to the private exchanges already included in basic shares outstanding.

(11) Includes the dilutive effect of approximately 2.1 million shares for stock options and 0.4 million shares for the 3 1/2% Notes not repurchased as part of the private exchanges and the after tax impact of $0.1 million of interest expense for the 3 1/2% Notes not purchased as part of the private exchanges as follows:

Net earnings	$ 56,296
Interest expense, after tax, for 3 1/2% Notes included in net earnings	123
Adjusted net earnings	$ 56,419
Basic shares outstanding	36,733
Dilutive effect of stock options and awards	2,125
Dilutive effect of 3 1/2% Notes	419
Diluted shares outstanding	39,277
Diluted earnings per share	$ 1.44

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ADVANCED MEDICAL OPTICS, INC.
(Registrant)

By: /s/ Richard A. Meier

Date: July 13, 2005

Richard A. Meier
Executive Vice President Finance and Operations
and Chief Financial Officer