

ADVANCED MEDICAL OPTICS INC
Form 10-K
March 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Fiscal Year Ended December 31, 2005

or

o **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
(State of Incorporation)

33-0986820
(I.R.S. Employer Identification No.)

1700 E. St. Andrew Place, Santa Ana, California

92705

Edgar Filing: ADVANCED MEDICAL OPTICS INC - Form 10-K

(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 Common Stock, \$0.01 par value Preferred Stock Purchase Rights	Name of each exchange on which each class registered New York Stock Exchange
--	---

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

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

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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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.

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

Edgar Filing: ADVANCED MEDICAL OPTICS INC - Form 10-K

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates is approximately \$2.1 billion based upon the closing price on the New York Stock Exchange as of June 24, 2005.

Common Stock outstanding as of February 28, 2006: 68,450,579 shares (including 1,397 shares held in treasury).

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's proxy statement for the 2006 annual meeting of stockholders, which proxy statement will be filed no later than 120 days after the close of the registrant's fiscal year ended December 31, 2005.

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1.</u>	<u>Business</u> 1
<u>Item 1A.</u>	<u>Risk Factors</u> 14
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u> 25
<u>Item 2.</u>	<u>Properties</u> 25
<u>Item 3.</u>	<u>Legal Proceedings</u> 25
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u> 26
<u>PART II</u>	
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 27
<u>Item 6.</u>	<u>Selected Financial Data</u> 28
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 30
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 44
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u> 48
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> 85
<u>Item 9A.</u>	<u>Controls and Procedures</u> 85
<u>Item 9B.</u>	<u>Other Information</u> 85
<u>PART III</u>	
<u>Item 10.</u>	<u>Directors and Executive Officers of the Registrant</u> 86
<u>Item 11.</u>	<u>Executive Compensation</u> 86
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 86
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions</u> 86
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u> 86
<u>PART IV</u>	
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u> 87
<u>SIGNATURES</u>	<u>S-1</u>
<u>INDEX OF EXHIBITS</u>	<u>S-3</u>
<u>SCHEDULE II</u>	<u>S-8</u>
<u>EXHIBITS</u>	(Attached to this Report on Form 10-K)

PART I

Item 1. Business

AMO 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 Allergan's optical medical device business for the periods prior to June 29, 2002 and to Advanced Medical Optics, Inc. and its subsidiaries for the periods on or after such date.

Overview

We are a global leader in the development, manufacture and marketing of medical devices for the eye. We have two major product lines: ophthalmic surgical and eye care. Our ophthalmic surgical product line provides medical devices for use in the cataract / implant and laser vision correction markets. In the cataract and implant market, we focus on the four key products required for cataract surgery – foldable intraocular lenses, or IOLs, implantation systems, phacoemulsification systems and viscoelastics. In the laser vision correction market, we market laser systems, diagnostic devices, treatment cards and microkeratomes for use in laser eye surgery. Our eye care product line 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 addition, we sell contact lenses in Europe and Asia. Our products are sold in approximately 60 countries and we have direct operations in over 20 countries.

In June 2004, we completed our acquisition of Pfizer Inc.'s surgical ophthalmic business, which expanded our viscoelastic and 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* and *CeeOn* IOL brands. The addition of the *Healon* family, one of the leading viscoelastic brands, significantly expanded our viscoelastic product line. The *Tecnis* and *CeeOn* IOL brands 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, the global leader in laser vision correction. 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 specific access to proprietary software and are required to operate the *VISX STAR* Excimer Laser System.

Industry

Vision and Vision Impairment.

How Vision Works. Vision is enabled by the cornea and the lens, which work together to focus light, and the iris, which regulates the amount of light that passes through the cornea onto the retina. 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 usual 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. With hyperopia (farsightedness), light rays focus behind the retina because the curvature of the cornea is too flat. Astigmatism makes it difficult for a person to focus on any object because the otherwise uniform curvature of the cornea or lens is somehow disrupted or becomes uneven. Presbyopia is the progressive loss of flexibility of the lens and its ability to change shape to focus on near or far objects, and is presumably caused by aging of the eye's lens and the muscles that control the shape of the 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 2.8 million cataract procedures were performed in the United States and over 13.3 million cataract procedures were performed worldwide in 2005. MarketScope estimates that the global cataract surgery market, which includes sales of IOLs, phacoemulsification equipment, viscoelastics and other related products, was approximately \$3.1 billion in 2005 and is projected to grow at a compound annual growth rate of approximately 9% from 2005 to 2010. 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, provide lubrication and maintain space in the anterior chamber of the eye and the capsular bag in the posterior chamber (which houses the lens), allowing the eye to maintain its shape.

The following table sets forth the estimated revenues for each component of the global cataract surgery market in its various components for the year 2005 according to MarketScope (in millions):

IOLs	\$	1,284
Viscoelastics		493
Phacoemulsification machines and accessories		463
Other		825
Total	\$	3,065

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 laser assisted in-situ keratomileusis, or LASIK. LASIK involves the use of an automated cutting device to cut a thin corneal flap, which is then pulled back to expose the underlying tissue, which is treated using an excimer laser to achieve vision correction. The most common cutting device is called a microkeratome.

Edgar Filing: ADVANCED MEDICAL OPTICS INC - Form 10-K

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. Laser vision correction (LVC) 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 1990 s. 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 (see below), Standard LASIK cannot correct higher order aberrations.

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 microkeratomes, 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 promote corneal healing and 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 may be used to treat those 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 address near, intermediate and distance vision and are approved for non-cataract procedures outside of the United States. 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 become increasingly popular, the demand for disinfecting solutions, daily cleaners, enzymatic cleaners 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 broader adoption among 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 towards 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 market, which is concentrated in Japan and parts of Europe.

Overall, we believe that strong 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.

Our Products

Ophthalmic Surgical Product Line

Edgar Filing: ADVANCED MEDICAL OPTICS INC - Form 10-K

Our ophthalmic surgical products business develops, manufactures and markets medical devices for the cataract / implant and laser vision correction markets, with a focus on technologically advanced products.

Cataract Surgery

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

Foldable IOLs 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.

Intraocular Lenses. As a leading provider of IOLs, we offer surgeons a choice of high quality, innovative foldable IOLs in both acrylic and silicone, together with our proprietary implantation systems, for use in minimally invasive cataract surgical procedures. We are the only company that offers a selection of IOLs in both silicone and acrylic materials in the United States, and

we offer both monofocal and multifocal designs. Sales of our IOLs represented approximately 28%, 32% and 34% of our net sales in 2005, 2004 and 2003, respectively. Our IOLs primarily include:

Monofocal Lenses

Tecnis the only foldable IOL with an aspheric surface and the only IOL to receive FDA approval for claims of improved functional vision, which results in quicker recognition of objects in lower-light conditions. The *Tecnis* lens is the only lens currently designated as a new technology intraocular lens by the U.S. Center for Medicare and Medicaid Services. With this designation, ambulatory surgery centers can receive \$50 in additional reimbursement when implanting the *Tecnis* IOL.

Sensar an acrylic monofocal IOL, with the patented *OptiEdge* design, intended to reduce post-surgical posterior capsular opacification, 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.

PhacoFlex a silicone monofocal IOL.

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. The *ReZoom* IOL is also approved in Europe for the treatment of presbyopia.

Tecnis Multifocal a silicone multifocal IOL with a diffractive, aspheric lens surface is approved in Europe for treatment of presbyopia.

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

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*, *SilverT* and *Silver* 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. Sales of our phacoemulsification products represented approximately 9%, 10% and 11% of our net sales in 2005, 2004 and 2003, respectively.

We currently market the following phacoemulsification systems:

Sovereign our premier phacoemulsification system is designed to reduce procedure times and provide the surgeon with increased control. The *Sovereign* system is available with our proprietary *Occlusion Mode* and *WhiteStar* technology, which creates less heat and turbulence in the ocular environment, giving rise to the term cold phaco and enabling better patient outcomes. Our *WhiteStar* technology also permits the system to offer bimanual, micro-incision phaco, a procedure which gives surgeons more operating flexibility over traditional techniques.

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

Diplomax 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 acquired from Pfizer in June 2004 the *Healon* family of viscoelastics, and as a result are a leading provider of viscoelastic products. The *Healon* family is one of the leading brands of viscoelastics and has significantly expanded the scale of our existing viscoelastic offering. The different characteristics associated with each *Healon* product, *Healon*, *Healon GV* and *Healon5*, provide surgeons with a range of viscoelastic choices that combine the familiarity of the *Healon* line

with advanced technologies to satisfy different surgical needs. *Healon* was the first viscoelastic introduced into the ophthalmic surgical product market and is known for its purity and ease of use. *Healon GV* is of a greater viscosity than the original *Healon* solution, which is designed for certain ophthalmic surgical procedures. *Healon5* is the first and only viscoadaptive agent to exhibit properties of both cohesive and dispersive viscoelastics. *Healon5* has the highest viscosity of any viscoelastic currently available and is designed to create and maintain a deep anterior chamber during surgery, which facilitates manipulation inside the eye. Sales of our viscoelastic products represented approximately 14%, 10% and 3% of our net sales in 2005, 2004 and 2003, respectively.

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. In the United States, we sell the *StabilEyes* capsular tension ring, which is inserted into the capsular bag during cataract surgery and functions to stabilize the capsular bag during placement of an IOL. We also market and distribute the *Inject-o-Ring* capsular tension ring in Europe. We distribute these products under arrangements with Ophtec B.V. in the United States and Corneal in Europe, respectively.

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.

Laser Vision Correction

Our laser vision correction products include the following:

VISX STAR Excimer Laser System The *VISX STAR* System is a fully integrated ophthalmic medical device incorporating an excimer laser and a computer-driven workstation.

VISX WaveScan System The *WaveScan* System is a diagnostic device that uses laser beam technology to measure comprehensive refractive errors of the eye and complex mathematical algorithms to derive comprehensive refractive information about the patient's individual optical system.

VISX Treatment Cards Our proprietary treatment cards control the use of the *VISX STAR* System.

Microkeratomes Surgeons use microkeratomes in LASIK procedures to cut a flap of corneal tissue before treatment with an excimer laser.

VISX STAR Excimer Laser System. The laser ablations produced by the *VISX STAR* System are the product of a variable diameter excimer laser beam scanning system. Seven beams that range in size from 0.65 to 6.5 millimeters are homogenized as they converge, scan, and rotate to produce a smooth ablation area on the eye. The *VISX STAR* System centers on the eye and tracks eye movements in three dimensions during the procedure. We also recently released our Iris Registration technology, the first fully automated method of aligning and registering wavefront corrections for *CustomVue* treatment. Iris Registration is designed to replace the current means of registration, which involves manual marking of the eye to assess rotational movement.

The *VISX STAR* System performs Standard LASIK, *CustomVue* laser vision correction, and PRK. It also performs specialized procedures known as Custom-CAP, which treats patients who previously had LVC surgery resulting in symptomatic

decentered ablations (a condition that affects fewer than 4,000 patients per year) and PhotoTherapeutic Keratectomy, or PTK, which treats corneas that are scarred or have irregularities from prior infection, trauma or underlying corneal disease.

VISX WaveScan System. The *WaveScan* System displays refractive information about the patient's individual optical system in the form of an aberration map. This unique map, similar to a fingerprint for each patient's eye, offers objective information about refractive errors associated with nearsightedness, farsightedness and astigmatism, as well as information about higher order aberrations that were previously unmeasurable by any other instrument.

VISX Treatment Cards. Each treatment card provides the user with specific access to proprietary software and is required to operate the *VISX STAR* System. Because treatment cards are required to perform procedures, there is a strong correlation between treatment card sales and the number of procedures performed on *VISX STAR* Systems. Types of *VISX* treatment cards include: *VisionKey*[®] Cards for performing standard LASIK procedures, which in the United States carries a license fee for each procedure that is purchased; *CustomVue* Cards for performing Custom LASIK, which carry a worldwide license fee for each procedure that is purchased; Custom-CAP Cards for performing laser vision correction with a previously decentered ablation, which carry a worldwide license 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.

Microkeratomes. In the refractive surgery market, we are a worldwide distributor of the *Amadeus* and *Amadeus II* microkeratome system and *SurePass* microkeratome blades.

Eye Care Product Line

In the eye care market, we focus on creating products that make contact lenses more comfortable, simplify contact lens care and promote ocular health. 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.

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. *Complete MoisturePLUS* is the first single-bottle, multi-purpose solution with dual demulcents to help prevent contact lens dryness and discomfort and promote ocular health. Sales of our multi-purpose solutions represented approximately 17%, 21% and 23% of our net sales in 2005, 2004 and 2003, respectively. We also offer *Complete Blink-N-Clean*, a unique in-the-eye lens cleaning solution.

Hydrogen Peroxide-Based Solutions. We offer products that use hydrogen peroxide-based disinfection systems. Our leading hydrogen peroxide brands are the *Oxysept 1 Step*, *Ultracare*, *Consept 1 Step* and *Consept F* solutions. Sales of our hydrogen peroxide-based solutions represented approximately 9%, 14% and 16% of our net sales in 2005, 2004 and 2003, respectively.

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.

Contact Lenses. In 2004, we entered the contact lens business outside of the United States with the introduction of the *AquaVision* monthly disposable contact lens.

Research and Development

Our long-term success is dependent on the introduction of new and innovative products in both the ophthalmic surgical and eye care businesses. 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.

Research and development activities for our ophthalmic surgical business are focused on expanding our product portfolio for both cataract and refractive surgery. Within cataract surgery, we have focused on six areas of opportunity to provide superior outcomes:

Small incision surgery work with a variety of advanced lens materials 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 but with less heat and turbulence directed into the ocular environment enabling potential for more effective and safer cataract extraction procedures.

Restoring accommodation following cataract surgery following cataract surgery, the eye may lose its ability to accommodate, or shift its field of focus.