ADVANCED MEDICAL OPTICS INC
Form 8-K/A
September 09, 2004

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 9, 2004 (June 26, 2004)

ADVANCED MEDICAL OPTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**01-31257**	**33-0986820**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

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

Registrant s telephone number, including area code: **(714) 247-8200**

Not applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

TABLE OF CONTENTS

Table of Contents

Item 9.01 Financial Statement and Exhibits

As previously reported on a Current Report on Form 8-K dated June 26, 2004 (filed July 9, 2004) (the Initial 8-K), on June 26, 2004, Advanced Medical Optics, Inc. (AMO) completed its all-cash acquisition of Pfizer Inc. s (Pfizer) ophthalmic surgical business (the Business).

This Form 8-K/A is being filed to amend the Initial 8-K to include the Financial Statements of the Business and the Pro Forma Financial Information relating to AMO s acquisition of the Business referred to below. Such information should be read in conjunction with the Initial 8-K. Since it is not practical to present complete historical financial statements of the Business because the Business shared many corporate resources with the rest of Pfizer s ophthalmic franchise and businesses and Pfizer did not maintain the Business as a separate reporting unit, AMO has not included the full audited financial statements of the Business. Instead, AMO has provided combined statements of direct revenues and direct operating expenses and combined statements of net assets to be sold.

(a) Financial statements of the businesses acquired.

The following financial statements are filed herewith:

Audited combined statements of net assets to be sold of the Business as of December 31, 2003, 2002 and 2001;

Audited combined statements of direct revenues and direct operating expenses of the Business for each of the years ended December 31, 2003, 2002 and 2001;

Unaudited combined statement of net assets to be sold of the Business as of June 26, 2004; and

Unaudited combined statements of direct revenues and direct operating expenses of the Business for the six months ended June 26, 2004 and June 29, 2003.

(b) Pro forma financial information.

The following pro forma financial information is filed herewith:

Unaudited pro forma financial information as of June 25, 2004;

Unaudited pro forma financial information for the year ended December 31, 2003; and

Unaudited pro forma financial information for the six months ended June 25, 2004.

(c) The following material is filed as an exhibit hereto:

23.1 Consent of Independent Registered Certified Public Accountants

Table of Contents

INDEPENDENT AUDITOR S REPORT

The Board of Directors
Pfizer Inc.:

We have audited the accompanying combined statements of net assets to be sold as of December 31, 2003, 2002 and 2001, and the related combined statements of direct revenues and direct operating expenses for each of the years in the three year period ended December 31, 2003 of the Surgical Ophthalmic Business (the Business). These combined financial statements are the responsibility of the Business s management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying combined financial statements were prepared to present the net assets to be sold and the direct revenues and direct operating expenses of the Business, pursuant to the basis of presentation as described in note 2 and the purchase agreement as described in note 11, and are not intended to be a complete presentation of the Business s financial position, results of operations or cash flows.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets to be sold of the Business as of December 31, 2003, 2002 and 2001, and the Business s direct revenues and direct operating expenses for each of the years in the three year period ended December 31, 2003, as described in note 2, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2, in 2003, the fiscal year of the non-U.S. operations was changed to November 30. The 2003 combined statement of direct revenues and direct operating expenses includes the results for the 11 months ended November 30, 2003 for the non-U.S. operations of the Business.

KPMG LLP

April 16, 2004, except
as to note 11, which
is as of April 21, 2004

Table of Contents

Surgical Ophthalmic Business
(A Business Within Pfizer Inc. s Global Pharmaceutical Group)

Combined Statements of Net Assets to be Sold as of December 31, 2003, 2002 and 2001

	Years Ended December 31,		
	2003	**2002**	**2001**
	(In thousands)		
Assets			
Inventories	$ 24,083	$21,771	$14,325
Accounts receivable	0	66	90
Prepaid expenses	607	585	423
Property, plant, and equipment, net	41,017	28,730	24,567
Goodwill	66,000	0	0
Intangible assets, net	284,200	0	0
Total assets	415,907	51,152	39,405
Liabilities			
Accounts payable	1,524	611	1,229
Accrued compensation and related items	863	871	905
Accrued other current liabilities	1,576	1,726	1,113
Accrued long term liabilities	28	17	14
Non-current deferred income taxes	182	90	44
Total liabilities	4,173	3,315	3,305
Net assets to be sold	$411,734	$47,837	$36,100

See accompanying notes to combined financial statements.

2

Table of Contents

Surgical Ophthalmic Business
(A Business Within Pfizer Inc. s Global Pharmaceutical Group)

Combined Statements of Direct Revenue and Direct Operating Expenses
for the Years Ended December 31, 2003, 2002 and 2001

	Years Ended December 31,		
	2003	**2002**	**2001**
		(In thousands)	
Direct revenue, net	$146,980	$154,935	$159,619
Direct cost of sales	70,094	33,995	29,617
Gross profit	76,886	120,940	130,002
Direct operating expenses:			
Selling and marketing expenses	42,834	43,156	48,928
Distribution expense	1,192	1,416	1,838
General and administrative expenses	4,431	5,914	7,614
Research and development expenses	2,788	3,364	7,859
Amortization of intangibles	9,800	0	0
Total direct operating expenses	61,045	53,850	66,239
Excess of direct revenue over direct expenses	$ 15,841	$ 67,090	$ 63,763

See accompanying notes to combined financial statements.

Table of Contents

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2003, 2002 and 2001
(Dollars in thousands)

1. Business Description

Pfizer s Surgical Ophthalmic Business (the Business) is comprised of a group of products within Pfizer Inc. s Global Pharmaceutical Group, a division of Pfizer Inc. (Pfizer). The Business s portfolio includes:

The *Healon* line of viscoelastic products

A range of intraocular lenses (IOLs) including *Tecnis* and *CeeOn* brands, and

The *Baerveldt* glaucoma shunt

The Business maintains a balanced, global presence with coverage in each of the major surgical ophthalmic regions of the world. The Business operates in over 40 countries through manufacturing subsidiaries located in Sweden, the Netherlands and India that are completely dedicated to the Business and through other Pfizer subsidiaries that contain certain assets and operations attributable to the Business.

On April 16, 2003, Pfizer acquired the Business as part of its acquisition of Pharmacia Corporation (Pharmacia). Prior to April 16, 2003, the business was part of a larger ophthalmic franchise within Pharmacia that included certain ophthalmic pharmaceutical products. The Business shared many corporate resources with the rest of the ophthalmic franchise and other Pharmacia businesses. Since the completion of Pfizer s acquisition of Pharmacia, the relationship of the Business with Pfizer has remained largely similar to its structure under Pharmacia. The accompanying combined financial statements as of and for the years ended December 31, 2002 and 2001 reflect the Business when it was within Pharmacia. The financial statements for the year ended December 31, 2003 include the effects of purchase accounting associated with the Pfizer acquisition of Pharmacia. These effects require assets acquired and liabilities assumed to be recorded at the acquisition date at their respective fair values.

Pfizer is currently reviewing its strategic alternatives regarding the Business, including the possible sale of the business. In the event that Pfizer elects to sell the Business, the transaction would include the inventories and property, plant and equipment that relate exclusively to the Business that could be segregated and conveyed to the purchaser. Generally, accounts receivable for these products are not separately identifiable; therefore they would not be included with the sale of the Business. The only other assets and liabilities that would transfer to the buyer would be those items associated with the conveyed subsidiaries or accruals specifically associated with transferred employees and not contractually retained by Pfizer.

2. Basis of Presentation

The accompanying combined financial statements have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and the accompanying notes. Actual results could differ from those estimates. Significant accounting estimates used include estimates for depreciation, amortization, inventory valuation allowances, sales provisions, and direct operating cost allocations. Management believes that it has exercised reasonable judgment in deriving these amounts. The Business is subject to risks and uncertainties that may cause actual results to differ from estimated results, such as changes in the business environment, competition, foreign exchange rates, and legislation.

The accompanying combined financial statements as of and for the years ended December 31, 2002 and 2001 are based upon the respective calendar years. Following the acquisition of Pharmacia by Pfizer in April, 2003 the non-U.S. operations changed their fiscal year end from December 31 to November 30, to conform to Pfizer s accounting policies. As a result, the Statement of Direct Revenues and Direct Operating Expenses for 2003 includes the results from the 11 months ended November 30 for non-U.S. operations and 12 months ended December 31 for U.S.

Table of Contents

operations. The Statement of Net Assets to be Sold at December 31, 2003 includes the assets and liabilities for non-U.S. operations as of November 30, 2003. The results in 2003 also include additional non-cash charges attributable to the step-up in the basis to fair value of inventory, property, plant and equipment and intangible assets resulting from the acquisition. See Note 4.

The Statement of Net Assets to be Sold include entities in Sweden and the Netherlands and specific business assets, principally inventory, in the remainder of the markets. Balance sheet amounts in the other markets such as cash, accounts receivable, and accounts payable are not separately identified for the Business. Cash from the Business is not included the accompanying combined statements of net assets to be sold at December 31, 2003, 2002 and 2001 since this cash is included in Pfizer s centralized cash management system. Complete financial statements were not prepared as Pharmacia and Pfizer did not maintain the Business as a separate reporting unit. After the acquisition of Pharmacia the Business continued to be operated within the pharmaceutical group.

The combined statements of direct revenue and direct operating expenses include the revenues and operating expenses directly attributable to the development, manufacture, sale, and distribution of the products comprising the Business. They also include an allocation of costs attributable to the sale and distribution of the products comprising the Business, which have not been historically segregated by Pharmacia in its accounting records. These additional allocated costs are incurred in the local markets in which the Business sells and distributes the products. Pfizer management believes that the allocations are reasonable; however, these allocated expenses are not necessarily indicative of costs that would be incurred by the Business on a stand alone basis. The combined statements of direct revenues and direct operating expenses do not include interest expense, foreign exchange transaction gains and losses, income taxes, or any other indirect expenses not noted above. All significant intercompany transactions and balances have been eliminated from these financial statements.

3. Summary of Accounting Policies

Revenue recognition

The Business product portfolio comprised of the Healon line of viscoelastic products, intraocular lenses (IOL) including Tecnis and CeeOn brands, and the Baerveldt glaucoma shunt are primarily sold to hospitals, ambulatory surgical centers, and other physicians and facilities that perform cataract surgical procedures. The Business records revenue from product sales when the goods are shipped and title to products and risk of loss passes to the customer. Revenue comprises the sale of products, net of sales discounts and an estimate of product returns. Volume, promotional, price, cash and other discounts and customer incentives are accounted for as a reduction of revenue in accordance with Emerging Issues Task Force No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer.*

The practice of consigning inventory is common throughout the industry for IOL products. The United States, Europe and Japan are the primary markets where consignment of inventory is prevalent. Revenue related to this inventory is recognized when ownership passes to the customers, typically upon implant into a patient.

Direct cost of sales

Direct cost of sales includes all variable and fixed costs associated with manufacturing the product, including raw materials, packaging supplies, direct labor, indirect labor, the cost of goods purchased from third parties and fixed factory overheads including depreciation. In 2003, direct cost of sales also includes the effects of inventory and property, plant and equipment being stepped-up to fair value. See Note 4.

Direct selling and marketing expenses

Direct selling expenses reflect the cost of sales representatives including travel and entertainment. In certain markets where the Business was allocated such expenses from Pharmacia s Ophthalmic Group marketing expenses represent non-trade promotion marketing, which included media advertising, samples, seminars and symposia and allocated overhead expenses. These expenses were allocated to the Business based upon specific identification of expenses incurred or management estimates of resources utilized. Advertising and promotion expenses were $12,711, $15,051 and $14,093 for 2003, 2002 and 2001, respectively.

Table of Contents

Direct distribution expense

Certain costs incurred at the production facilities and distribution centers have been allocated to the Business on various bases, including percentage of floor space and activity level. Management believes that these allocations are representative of the activities of the Business.

Direct general and administrative expense

Direct general and administrative expenses are primarily costs incurred by Pharmacia s Ophthalmic Group and allocated to the Business based upon management s estimate of resources utilized by the Business.

Direct research and development expense

Direct research and development expenses are primarily costs incurred in the Netherlands subsidiary and are related to the IOL product line.

Inventories

Inventories are valued at the lower of cost or market, with cost determined for finished goods and work-in-process on the first-in first-out (FIFO) method. Raw material inventories are stated at actual cost.

Depreciation, Amortization and Long-Lived Assets

Property, plant and equipment are carried at cost less accumulated depreciation. Major improvements are capitalized while maintenance and repairs are expensed when incurred. Depreciation is generally computed on a straight-line basis over the following estimated useful lives:

Buildings and building improvements	25 years
Machinery and equipment	8 - 12 years
Laboratory instruments	3 - 6 years
Furniture, fixtures and other	3 - 12 years

Intangible assets are recorded at their acquisition cost and are amortized evenly over 20 years (estimated useful life). Impairment tests of long-lived assets are made when conditions indicate a possible loss. When necessary, the Business records charges for impairments of long-lived assets for the amount by which the present value of future cash flows, or some other fair value measure, is less than the carrying value of these assets.

Goodwill relating to Pfizer s acquisition of Pharmacia was allocated to the Business based on the Business s fair value. Goodwill represents the difference between the fair value of Business and the fair value of its net assets. Goodwill is not amortized and is subject to annual review for impairment.

Foreign Currency Translation

For international operations, local currencies have been determined to be their functional currencies. Assets and liabilities were translated into their U.S. dollar equivalents at rates in effect at the balance sheet dates. Revenue and expense items were translated into their U.S. dollar equivalents at average rates of exchange for the period.

Translation gains and losses are not included in the accompanying combined statements of net assets to be sold because they have historically not been separately identified for the Business.

Concentration of Credit Risk

The Business does not have significant concentrations of credit risk from its customers. Periodically, the Business reviews the credit quality of its customers financial condition. In general, there is no requirement for collateral from customers.

Table of Contents

Benefit Plans

Substantially all the Business s active employees participate in Pfizer benefit plans and previously in Pharmacia benefit plans. The combined statements of direct revenue and direct operating expenses include an allocation from Pfizer and Pharmacia for the costs associated with the Business employees who participate in these plans. Pfizer expects to retain this liability; therefore it is excluded from the Combined Statements of Net Assets to be Sold.

New Accounting Standards

In January 2003, the Business adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations.* In January 2003, the Business also adopted the provisions of FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities.* The adoption of SFAS No. 143 and FIN 46 did not have a material impact on the financial statements.

4. Pharmacia Acquisition

Description of Acquisition

On April 16, 2003, Pfizer acquired Pharmacia for a purchase price of approximately $56 billion. The acquisition was accounted for as a purchase business combination. Under the purchase method of accounting, the assets acquired and liabilities assumed from Pharmacia are recorded at the date of acquisition, at their respective fair values. The consolidated financial statements and reported results of operations of Pfizer issued after completion of the acquisition reflect these values.

Allocation of Purchase Price

The above purchase price has been allocated based on an estimate of the fair value of assets acquired and liabilities assumed. The allocation of the purchase price to the Business resulted in adjusting inventories, property, plant and equipment up to their respective fair values at the acquisition date. Acquired identifiable intangible assets were also recognized at their respective fair values. Goodwill was allocated to the Business based on the difference between the Business s fair value and the fair value of its net assets. For other assets and liabilities, their carrying values approximated fair value and no adjustments were made to their respective carrying values.

Purchase accounting adjustments to increase carrying values to fair value were as follows:

Inventories(a)		$ 32,821
Property, plant and equipment(b)		4,542
Goodwill		66,000
Intangible assets (Developed Technology Rights)(c):		
Healon	234,000	
Tecnis Lenses	6,000	
CeeOn Lenses	46,000	
Other	8,000	
		294,000

Adjustments to fair value of Business assets	$397,363

(a) The increase to fair value for acquired inventory was comprised of an increase to finished goods of $23,295 and work in process of $9,526.

The fair value of acquired inventory, developed in consultation with independent valuation specialists, was determined as follows:

Finished goods	the estimated selling price less the cost of disposal and a reasonable profit for the selling effort.

7

Table of Contents

Work in process the estimated selling price of finished goods less the cost to complete, cost of disposal and a reasonable profit for the selling and remaining manufacturing efforts.

Raw materials estimated current replacement cost, approximated Pharmacia s historical cost.

(b) Components of the increase to fair value for acquired property, plant and equipment are as follows:

	2003
Land	$ (401)
Buildings	3,546
Machinery and equipment	1,397
Total	$4,542

The fair value of acquired property, plant and equipment, developed in consultation with independent valuation specialists, was valued at its value-in-use, unless there was a known plan to dispose of an asset.

(c) Developed technology rights represent the value associated with developed technology from Pharmacia to which Pfizer has rights. These rights can include the right to develop, use, market, sell and/or offer for sale the products and intellectual property that Pfizer acquired from Pharmacia with respect to products and/or processes that have been completed.

The fair value of identifiable intangible assets is determined using the income approach on a project-by-project basis. This method starts with a forecast of all of the expected future net cash flows. These net cash flow projections do not anticipate any revenue or cost synergies. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams, some of which are more certain than others.

The forecast of future cash flows for identifiable intangible assets requires the following assumptions to be made:

Revenue that is reasonably likely to result from the approved and unapproved, potential uses of identifiable 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 life cycles.

Cost of sales using historical data, industry data or other sources of market data.

Sales and marketing expense using historical data, industry data or other sources of market data.

General and administrative expenses.

R&D expenses.

The estimated life of product or potential product.

The valuations are based on the information that is available as of the acquisition date and the expectations and assumptions that have been deemed reasonable by the Business and Pfizer s management. No assurance can be given, however, that the underlying assumptions or events associated with such assets will occur as projected. For these reasons, among others, the actual results may vary from the projected results.

Impact on Operations

As a result of the acquisition and the adjustments to the carrying value of certain assets of the Business to

Table of Contents

increase them to their fair values, additional non-cash charges are now reflected in the Statement of Direct Revenues and Direct Operating Expenses. The 2003 statement is impacted as follows:

	2003
Direct Cost of Sales(a)	$33,541
Amortization of Intangibles(b)	9,800
Impact of Purchase Accounting in 2003	$43,341

(a) Includes $32,821 relating to the step-up in basis of inventory. This charge is fully recognized in 2003 and will not recur in subsequent years. Also included in Direct Cost of Sales is additional depreciation of $720 relating to the step-up in basis in property, plant and equipment. On an annual basis this additional depreciation charge will be approximately $1,080.

(b) Represents amortization of developed technology rights of $9,800. On an annual basis such amortization will be approximately $14,700.

5. Corporate and Pharmaceutical Group Overhead Costs

Corporate overhead costs relating to functions such as personnel, legal, accounting, treasury, and information systems have not been allocated to the Business because these costs are not separately identified in the accounting records for the Business. In addition, management believes that these costs would not be representative of the costs that would have been or will be incurred by the Business operating independently from Pfizer or Pharmacia.

Pharmaceutical Group overhead costs relating to personnel, quality control, regulatory compliance, finance, and business development also have not been allocated to the Business, for the same reasons as the corporate overhead costs noted above.

6. Inventories

Inventories consist of the following:

	2003	2002	2001
Raw materials	$ 4,666	$ 3,718	$ 2,928
Work in process	2,180	3,562	2,158
Finished goods	17,237	14,491	9,239
Total inventories	$24,083	$21,771	$14,325

7. Property, Plant and Equipment

Significantly all of the property, plant and equipment being sold relates to the manufacturing and distribution facilities in Uppsala, Sweden, Groningen, Netherlands and Bangalore, India and consist of the following:

	2003	2002	2001
Land, buildings and building improvements	$ 29,709	$ 22,137	$ 18,716
Machinery and equipment	41,156	40,275	32,942
Furniture, fixtures and other	883	956	851
Construction in progress	8,985	6,048	3,695
	80,733	69,416	56,204
Less: accumulated depreciation	(39,716)	(40,686)	(31,637)
Net property, plant and equipment	$ 41,017	$ 28,730	$ 24,567

Depreciation expense totaled $2,717, $1,984 and $2,225 for the years ended December 31, 2003, 2002 and 2001, respectively.

Table of Contents

8. Intangibles

The components of identifiable intangible assets are:

	2003
Intangible assets:	
Developed technology rights:	
Healon	$234,000
Tecnis Lenses	6,000
CeeOn Lenses	46,000
Other Surgical Ophthalmology	8,000
	294,000
Less: accumulated amortization	(9,800)
Net identifiable intangible assets	$284,200

Amortization expense for the intangible assets was $9,800 in 2003. Expected amortization expense for each of the next 5 years is $14,700 per year.

9. Geographic Information

Surgical Ophthalmology operates in one business segment. The Business primarily sells its products to hospitals, ambulatory surgical centers, and other physicians and facilities that perform cataract surgical procedures. The following table presents direct revenue and long lived assets by geographic location:

		Sweden	Netherlands	India	Japan	United States	All Other Countries	Consolidated
Direct revenue, net	2003	$ 831	$ 1,643	$2,440	$34,828	$37,214	$70,024	$146,980
	2002	1,282	1,579	1,971	39,895	38,780	71,428	154,935
	2001	1,357	1,877	1,531	45,719	38,921	70,214	159,619
Long-lived assets	2003	311,903	74,501	3,856	520	0	437	391,217
	2002	14,718	8,949	4,249	456	0	358	28,730
	2001	11,232	8,063	4,573	342	0	357	24,567

10. Legal Proceedings and Contingencies

The Business is involved in various patent, environmental and tax claims and litigations that arise from time to time in the ordinary course of business. Management believes that it has valid defenses with respect to the legal matters pending against it and it believes that the ultimate resolution of these matters will not have a material adverse impact on its financial condition, results of operations, or cash flows.

11. Subsequent Event

On April 21, 2004 Pfizer announced that they have entered into a definitive agreement for Advanced Medical Optics to acquire the Business for $450,000.

Table of Contents

Surgical Ophthalmic Business
(A Business Within Pfizer Inc. s Global Pharmaceutical Group)

Combined Statement of Net Assets to be Sold as of June 26, 2004
(Dollars in Thousands)

	June 26, 2004
Assets:	**(Unaudited)**
Inventories	$ 25,483
Prepaid expenses	550
Property, plant, and equipment, net	38,800
Goodwill	66,000
Intangible assets, net	276,850
Total assets	407,683
Liabilities:	
Accounts payable	815
Accrued compensation and related items	2,124
Accrued other current liabilities	1,814
Accrued long term liabilities	101
Non-current deferred income taxes	180
Total liabilities	5,034
Net assets to be sold	$402,649

See accompanying notes to combined financial statements.

Table of Contents

SURGICAL OPHTHALMIC BUSINESS
(A Business Within Pfizer Inc. s Global Pharmaceutical Group)

Combined Statements of Direct Revenues and Direct Operating Expenses for the Six Months Ended June 26, 2004 and June 29, 2003
(Dollars in Thousands)

	Six Months Ended	
	June 26, 2004	**June 29, 2003**
Direct revenues, net	$74,877	$81,058
Direct cost of sales	21,623	29,419
Gross profit	53,254	51,639
Direct operating expenses:		
Selling and marketing expenses	21,884	22,163
Distribution expense	1,545	577
General and administrative expenses	1,373	1,853
Research and development expenses	1,424	1,343
Amortization of intangibles	7,350	3,063
Total direct operating expenses	33,576	28,999
Excess of direct revenue over direct expenses	$19,678	$22,640

See accompanying notes to combined financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 26, 2004
(Dollars in thousands)

1. Business Description

Pfizer s Surgical Ophthalmic Business (the Business) is comprised of a group of products within Pfizer Inc. s Global Pharmaceutical Group, a division of Pfizer Inc. (Pfizer). The Business s portfolio includes:

The Healon line of viscoelastic products

A range of intraocular lenses (IOLs) including Tecnis and CeeOn brands, and

The Baerveldt glaucoma shunt

The Business maintains a balanced, global presence with coverage in each of the major surgical ophthalmic regions of the world. The Business operates in over 40 countries through manufacturing subsidiaries located in Sweden, the Netherlands and India that are completely dedicated to the Business and through other Pfizer subsidiaries that contain certain assets and operations attributable to the Business.

On April 16, 2003, Pfizer acquired the Business as part of its acquisition of Pharmacia Corporation (Pharmacia). Prior to April 16, 2003, the business was part of a larger ophthalmic franchise within Pharmacia that included certain ophthalmic pharmaceutical products. The Business shared many corporate resources with the rest of the ophthalmic franchise and other Pharmacia businesses. Since the completion of Pfizer s acquisition of Pharmacia, the relationship of the Business with Pfizer has remained largely similar to its structure under Pharmacia. The financial statements as of and for the six months ended June 26, 2004 and for the six months ended June 29, 2003 include the effects of purchase accounting associated with the Pfizer acquisition of Pharmacia. These effects require assets acquired and liabilities assumed to be recorded at the acquisition date at their respective fair values.

On April 21, 2004 Pfizer entered into a definitive agreement for Advanced Medical Optics to acquire the Business for $450,000. The transaction will include the inventories and property, plant and equipment that relate exclusively to the Business that could be segregated and conveyed to the purchaser. Generally, accounts receivable for these products are not separately identifiable; therefore they would not be included with the sale of the Business. The only other assets and liabilities that would transfer to the buyer would be those items associated with the conveyed subsidiaries or accruals specifically associated with transferred employees and not contractually retained by Pfizer.

2. Basis of Presentation

The accompanying combined financial statements have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and the accompanying notes. Actual results could differ from those estimates. Significant accounting estimates used include estimates for depreciation, amortization, inventory valuation allowances, sales provisions, and direct operating cost allocations. Management believes that it has exercised reasonable judgment in deriving these amounts. The Business is subject to risks and uncertainties that may cause actual results to differ from estimated results, such as changes in the business environment, competition, foreign exchange rates, and legislation.

Following the acquisition of Pharmacia by Pfizer in April 2003 the non-U.S. operations changed their fiscal year end from December 31 to November 30, to conform to Pfizer s accounting policies. As a result, the Statement of Direct Revenues and Direct Operating Expenses for 2004 includes the results from the 6 months ended May 23, 2004 for non-U.S. operations and 6 months ended June 26, 2004 for U.S. operations. The Statement of Net Assets to be Sold at June 26, 2004 includes the assets and liabilities for non-U.S. operations as of May 23, 2004. Since the closing date for the sale of the Business to AMO was June 26, 2004 the US operations are reflected as of and through this date.

The Statement of Net Assets to be Sold include entities in Sweden and the Netherlands and specific business assets, principally inventory, in the remainder of the markets. Balance sheet amounts in the other markets such as cash,

Table of Contents

accounts receivable, and accounts payable are not separately identified for the Business. Cash from the Business is not included the accompanying combined statements of net assets to be sold since this cash is included in Pfizer s centralized cash management system. Complete financial statements were not prepared as Pharmacia and Pfizer did not maintain the Business as a separate reporting unit. After the acquisition of Pharmacia the Business continued to be operated within the pharmaceutical group.

The Combined Statements of Direct Revenue and Direct Operating Expenses include the revenues and operating expenses directly attributable to the development, manufacture, sale, and distribution of the products comprising the Business. They also include an allocation of costs attributable to the sale and distribution of the products comprising the Business, which have not been historically segregated by Pharmacia in its accounting records. These additional allocated costs are incurred in the local markets in which the Business sells and distributes the products. Pfizer management believes that the allocations are reasonable; however, these allocated expenses are not necessarily indicative of costs that would be incurred by the Business on a stand alone basis. The combined statements of direct revenues and direct operating expenses do not include interest expense, foreign exchange transaction gains and losses, income taxes, or any other indirect expenses not noted above. All significant intercompany transactions and balances have been eliminated from these financial statements.

3. Summary of Accounting Policies

Revenue recognition

The Business product portfolio comprised of the Healon line of viscoelastic products, intraocular lenses (IOL) including Tecnis and CeeOn brands, and the Baerveldt glaucoma shunt are primarily sold to hospitals, ambulatory surgical centers, and other physicians and facilities that perform cataract surgical procedures. The Business records revenue from product sales when the goods are shipped and title to products and risk of loss passes to the customer. Revenue comprises the sale of products, net of sales discounts and an estimate of product returns. Volume, promotional, price, cash and other discounts and customer incentives are accounted for as a reduction of revenue in accordance with Emerging Issues Task Force No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer*.

The practice of consigning inventory is common throughout the industry for IOL products. The United States, Europe and Japan are the primary markets where consignment of inventory is prevalent. Revenue related to this inventory is recognized when ownership passes to the customers, typically upon implant into a patient.

Direct cost of sales

Direct cost of sales includes all variable and fixed costs associated with manufacturing the product, including raw materials, packaging supplies, direct labor, indirect labor, the cost of goods purchased from third parties and fixed factory overheads including depreciation. Direct cost of sales also includes the effects of inventory (2003) and property, plant and equipment (2003 and 2004) being adjusted to reflect their respective fair values. See Note 4.

Direct selling and marketing expenses

Direct selling expenses reflect the cost of sales representatives including travel and entertainment. In certain markets where the Business was allocated such expenses from Pharmacia s Ophthalmic Group marketing expenses represent non-trade promotion marketing, which included media advertising, samples, seminars and symposia and allocated overhead expenses. These expenses were allocated to the Business based upon specific identification of expenses incurred or management estimates of resources utilized. Advertising and promotion expenses were $6,524 and $6,433 for 2004 and 2003, respectively.

Direct distribution expense

Certain costs incurred at the production facilities and distribution centers have been allocated to the Business on various bases, including percentage of floor space and activity level. Management believes that these allocations are representative of the activities of the Business.

Direct general and administrative expense

Direct general and administrative expenses are primarily costs incurred by Pharmacia s Ophthalmic Group and allocated to the Business based upon management s estimate of resources utilized by the Business.

Table of Contents

Direct research and development expense

Direct research and development expenses are primarily costs incurred in the Netherlands subsidiary and are related to the IOL product line.

Inventories

Inventories are valued at the lower of cost or market, with cost determined for finished goods and work-in-process on the first-in first-out (FIFO) method. Raw material inventories are stated at actual cost.

Depreciation, Amortization and Long-Lived Assets

Property, plant and equipment are carried at cost less accumulated depreciation. Major improvements are capitalized while maintenance and repairs are expensed when incurred. Depreciation is generally computed on a straight-line basis over the following estimated useful lives:

Buildings and building improvements	25	years
Machinery and equipment	8 - 12	years
Laboratory instruments	3 - 6	years
Furniture, fixtures and other	3 - 12	years

Intangible assets are recorded at their acquisition cost and are amortized on a straight-line basis over 20 years (estimated useful life). Impairment tests of long-lived assets are made when conditions indicate a possible loss. When necessary, the Business records charges for impairments of long-lived assets for the amount by which the present value of future cash flows, or some other fair value measure, is less than the carrying value of these assets.

Goodwill relating to Pfizer s acquisition of Pharmacia was allocated to the Business based on the Business s fair value. Goodwill represents the difference between the fair value of Business and the fair value of its net assets. Goodwill is not amortized and is subject to annual review for impairment.

Foreign Currency Translation

For international operations, local currencies have been determined to be their functional currencies. Assets and liabilities were translated into their U.S. dollar equivalents at rates in effect at the balance sheet dates. Revenue and expense items were translated into their U.S. dollar equivalents at average rates of exchange for the period. Translation gains and losses are not included in the accompanying combined statements of net assets to be sold because they have historically not been separately identified for the Business.

Concentration of Credit Risk

The Business does not have significant concentrations of credit r