

ADVANCED MEDICAL OPTICS INC

Form 10-Q

April 29, 2005

Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended March 25, 2005

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

COMMISSION FILE NUMBER 001-31257

---

**ADVANCED MEDICAL OPTICS, INC.**

(Exact name of registrant as specified in its charter)

---

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

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

**1700 E. St. Andrew Place**

**Santa Ana, California**  
(Address of principal executive offices)

**92705**  
(Zip Code)

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

---

Indicate by a 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of April 21, 2005, there were 37,348,323 shares of common stock outstanding.

---

**Table of Contents**

ADVANCED MEDICAL OPTICS, INC.

FORM 10-Q FOR THE QUARTER ENDED MARCH 25, 2005

INDEX

	<u>Page</u>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
ITEM 1 - <b><u>FINANCIAL STATEMENTS</u></b>	
(A) <b><u>Unaudited Condensed Consolidated Statements of Operations - Three Months Ended March 25, 2005 and March 26, 2004</u></b>	3
(B) <b><u>Unaudited Condensed Consolidated Balance Sheets - March 25, 2005 and December 31, 2004</u></b>	4
(C) <b><u>Unaudited Condensed Consolidated Statements of Cash Flows - Three Months Ended March 25, 2005 and March 26, 2004</u></b>	5
(D) <b><u>Notes to Unaudited Condensed Consolidated Financial Statements</u></b>	6-11
ITEM 2 - <b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	12-19
<b><u>CERTAIN FACTORS AND TRENDS AFFECTING AMO AND ITS BUSINESSES</u></b>	19-20
ITEM 3 - <b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	20-22
ITEM 4 - <b><u>CONTROLS AND PROCEDURES</u></b>	22
<b><u>PART II - OTHER INFORMATION</u></b>	22
ITEM 1 - <b><u>LEGAL PROCEEDINGS</u></b>	22-23
ITEM 6 - <b><u>EXHIBITS</u></b>	23
<b><u>Signature</u></b>	24

**Table of Contents**

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Advanced Medical Optics, Inc.

Unaudited Condensed Consolidated Statements of Operations

(In thousands, except per share data)

	<b>Three Months Ended</b>	
	<b>March 25, 2005</b>	<b>March 26, 2004</b>
Net sales	\$ 192,519	\$ 150,307
Cost of sales	70,439	59,672
<b>Gross profit</b>	<b>122,080</b>	<b>90,635</b>
Selling, general and administrative	83,815	71,139
Research and development	12,352	9,017
<b>Operating income</b>	<b>25,913</b>	<b>10,479</b>
Non-operating expense (income)		
Interest expense	5,827	3,743
Unrealized gain on derivative instruments	(531)	(276)
Other, net	(331)	(405)
	<b>4,965</b>	<b>3,062</b>
<b>Earnings before income taxes</b>	<b>20,948</b>	<b>7,417</b>
Provision for income taxes	7,122	2,670
<b>Net earnings</b>	<b>\$ 13,826</b>	<b>\$ 4,747</b>
Net earnings per share:		
Basic	\$ 0.37	\$ 0.16
Diluted	\$ 0.35	\$ 0.15
Weighted average number of shares outstanding:		
Basic	37,119	29,420
Diluted	39,815	37,956

See accompanying notes to unaudited condensed consolidated financial statements.



**Table of Contents**

Advanced Medical Optics, Inc.

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share data)

	<b>March 25, 2005</b>	<b>December 31, 2004</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Current assets		
Cash and equivalents	\$ 25,858	\$ 49,455
Trade receivables, net	198,311	189,465
Inventories	97,297	85,028
Deferred income taxes	39,799	40,250
Other current assets	14,036	12,627
	<u>          </u>	<u>          </u>
Total current assets	375,301	376,825
Property, plant and equipment, net	113,700	118,639
Other assets	51,302	41,825
Intangibles assets, net	137,268	147,895
Goodwill	375,617	391,350
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,053,188</u>	<u>\$ 1,076,534</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current portion of long-term debt and short-term borrowings	\$ 9,450	\$ 1,950
Accounts payable	75,425	77,824
Accrued compensation	21,233	31,451
Other accrued expenses	63,518	67,042
Income taxes	18,850	15,656
	<u>          </u>	<u>          </u>
Total current liabilities	188,476	193,923
Long-term debt, net of current portion	550,643	550,643
Deferred income taxes	27,552	29,570
Other liabilities	25,797	26,128
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$.01 par value; authorized 5,000,000 shares; none issued		
Common stock, \$.01 par value; authorized 120,000,000 shares; issued 37,183,164 and 37,069,452 shares	372	371
Additional paid-in capital	312,974	310,437
Accumulated deficit	(90,563)	(104,389)
Accumulated other comprehensive income	37,960	69,874
Less treasury stock, at cost (1,379 shares)	(23)	(23)
	<u>          </u>	<u>          </u>
Total stockholders' equity	260,720	276,270
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	<u>\$ 1,053,188</u>	<u>\$ 1,076,534</u>

See accompanying notes to unaudited condensed consolidated financial statements.



**Table of Contents**

Advanced Medical Optics, Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)

	<b>Three Months Ended</b>	
	<b>March 25, 2005</b>	<b>March 26, 2004</b>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 13,826	\$ 4,747
<b>Adjustments to reconcile net earning to net cash provided by (used in) operating activities:</b>		
Amortization of original issue discount and debt issuance costs	940	553
Amortization of realized gain on interest rate swaps		(133)
Depreciation and amortization	7,960	3,692
Loss on investments and assets	126	255
Tax benefit from issuance of stock under stock plans	1,128	474
Unrealized gain on derivatives	(531)	(276)
Expense of compensation plan	66	38
<b>Changes in assets and liabilities:</b>		
Trade receivables, net	(14,853)	(4,441)
Inventories	(14,210)	1,272
Other current assets	(1,389)	828
Accounts payable	(1,385)	5,962
Accrued expenses and other liabilities	(13,002)	(8,376)
Income taxes	3,194	(260)
Other non-current assets	(429)	(396)
<b>Net cash provided by (used in) operating activities</b>	<b>(18,559)</b>	<b>3,939</b>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(2,279)	(3,120)
Proceeds from sale of property, plant and equipment	54	
Additions to capitalized internal-use software	(5,152)	(76)
Additions to demonstration and bundled equipment	(3,109)	(1,685)
<b>Net cash used in investing activities</b>	<b>(10,486)</b>	<b>(4,881)</b>
<b>Cash flows from financing activities:</b>		
Repayment of long-term debt		(1,179)
Notes payable	7,500	
Financing related costs	(2,421)	
Proceeds from issuance of common stock	1,344	1,070
Purchase of treasury stock		(8)
<b>Net cash provided by (used in) financing activities</b>	<b>6,423</b>	<b>(117)</b>
Effect of exchange rates on cash and equivalents	(975)	2,133
<b>Net increase (decrease) in cash and equivalents</b>	<b>(23,597)</b>	<b>1,074</b>
Cash and equivalents at beginning of period	49,455	46,104
<b>Cash and equivalents at end of period</b>	<b>\$ 25,858</b>	<b>\$ 47,178</b>





See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents**

Advanced Medical Optics, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1: Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (consisting only of normal recurring accruals) to state fairly the financial information contained therein. These statements do not include all disclosures required by accounting principles generally accepted in the United States of America for annual financial statements and should be read in conjunction with the audited consolidated financial statements of Advanced Medical Optics, Inc. (the Company) for the year ended December 31, 2004. The results of operations for the three months ended March 25, 2005 are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

All material intercompany balances have been eliminated.

Certain reclassifications of prior year amounts have been made to conform with current year presentation.

*Stock-Based Compensation*

The Company measures stock-based compensation for option grants to employees and members of the board of directors using the intrinsic value method. The fair value of each option grant for determining the pro forma impact of stock-based compensation expense is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions. These assumptions consist of expected dividend yield, expected volatility, risk-free interest rate and expected life.

Had compensation expense for the Company's stock options and employee stock purchase plans been recognized based upon the fair value of awards granted, the Company's net earnings would have been decreased to the following pro forma amounts (in thousands, except per share data):

	<b>Three Months Ended March 25, 2005</b>	<b>Three Months Ended March 26, 2004</b>
Net earnings:		
As reported	\$ 13,826	\$ 4,747
Stock-based compensation expense included in reported net earnings, net of tax	44	25
Stock-based compensation expense determined under fair value based method, net of tax	(2,297)	(913)
Pro forma	\$ 11,573	\$ 3,859

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

Earnings per share:		
As reported:		
Basic	\$ 0.37	\$ 0.16
Diluted	\$ 0.35	\$ 0.15
Pro forma :		
Basic	\$ 0.31	\$ 0.13
Diluted	\$ 0.29	\$ 0.13