ADVANCED MEDICAL OPTICS INC
Form DEF 14A
March 25, 2003

SCHEDULE 14A INFORMATION

(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ PreliminaryProxy Statement ¨ Confidential, for Use of the Commission Only(as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement

¨ DefinitiveAdditional Materials

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ADVANCED MEDICAL OPTICS, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

1700 E. St. Andrew Place, Santa Ana, CA 92705 (714) 247-8200

March 25, 2003

Dear Stockholder:

We invite you to attend our annual meeting of stockholders on Wednesday, April 30, 2003, at 10:00 a.m., to be held at our headquarters located at 1700 E. St. Andrew Place, Santa Ana, California.

This booklet includes the formal notice of the meeting and the proxy statement. The proxy statement tells you about the agenda and the procedures for the meeting. It also describes how the company s board of directors operates and gives certain information about the company. In addition, you will note that for your convenience we have included the company s financial statements for 2002 as *Exhibit A* to the proxy statement.

We hope you will be able to attend this first annual meeting following our spin-off from Allergan, Inc. on June 29, 2002. If you need special assistance at the meeting, please contact our Investor Relations department at the address above.

William R. Grant	James V. Mazzo
Chairman of the Board	*President and Chief Executive Officer*

1700 E. St. Andrew Place, Santa Ana, CA 92705 (714) 247-8200

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Date: April 30, 2003

Time: 10:00 a.m.

Place: Advanced Medical Optics, Inc.
1700 E. St. Andrew Place
Santa Ana, California

Purpose:

- To elect three directors
- To approve the Advanced Medical Optics, Inc. 2002 Bonus Plan to enable us to meet tax deductibility requirements of Section 162(m) of the Internal Revenue Code
- To approve the Advanced Medical Optics, Inc. 2002 Incentive Compensation Plan to enable us to meet tax deductibility requirements of Section 162(m) of the Internal Revenue Code
- To consider such other business as may properly come before the meeting or any adjournment of the meeting

YOUR VOTE IS IMPORTANT. YOU MAY VOTE YOUR SHARES BY EITHER (1) CALLING THE TOLL-FREE NUMBER SET FORTH ON YOUR PROXY CARD; (2) ACCESSING THE INTERNET AS INDICATED ON YOUR PROXY CARD; OR (3) SIGNING, DATING AND RETURNING THE ENCLOSED PROXY CARD PROMPTLY TO ENSURE ITS ARRIVAL IN TIME FOR THE MEETING.

By Order of the Board of Directors
Aimee S. Weisner
Corporate Vice President,

General Counsel and Secretary

March 25, 2003

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ADVANCED MEDICAL OPTICS, INC.

PROXY STATEMENT

FOR

ANNUAL MEETING OF STOCKHOLDERS

WEDNESDAY, APRIL 30, 2003

GENERAL INFORMATION

The approximate date on which the enclosed proxy card and this proxy statement are first being sent to stockholders is March 25, 2003.

Outstanding Shares.

On March 6, 2003, 28,765,357 shares of common stock (exclusive of 12,654 shares held in treasury) were outstanding. Each common share has one vote.

Who May Vote

Stockholders of Advanced Medical Optics, Inc. as of the company s record date, March 6, 2003, may vote.

How To Vote

You may vote by proxy or in person at the meeting. To vote by proxy, you may vote in one of the following three ways:

- Complete, sign, date and mail your proxy card in the enclosed, postage-prepaid envelope;
- Call the toll-free number listed on the proxy card; or
- Access the Internet as indicated on the proxy card.

Even if you plan to attend the meeting, we recommend that you vote prior to the meeting. You can always change your vote as described below.

How Proxies Work

Advanced Medical Optics, Inc. s board of directors is asking for your proxy. By giving us your proxy, you authorize the proxy holders (members of Advanced Medical Optics management) to vote your shares at the meeting in the manner you direct. If you do not specify how you wish us to vote your shares, your shares will be voted for all director candidates, for the approval of the 2002 Bonus Plan, and for the approval of the 2002 Incentive Compensation Plan. Proxy holders will also vote shares according to their discretion on any other matter properly brought before the meeting.

You may receive more than one proxy card depending on how you hold your shares. Generally, you need to either call the toll-free number, vote by accessing the Internet, or sign and return all of your proxy cards to vote all of your shares. For example, if you hold shares through someone else, such as a stockbroker, you may get proxy material from them. Shares registered in your name and shares held in the Advanced Medical Optics 401(k) Plan are covered by a separate proxy card. If a proxy card representing shares in the Advanced Medical Optics 401(k) Plan is not voted, those shares will be voted by the trustee of the Plan in accordance with the direction of the company s corporate benefits committee.

Quorum

In order to carry out the business of the meeting, we must have a quorum. This means that at least a majority of the outstanding shares eligible to vote must be represented at the meeting, either by proxy or in person. Shares owned by Advanced Medical Optics (also known as treasury shares) are not voted and do not count for this purpose.

Changing Your Vote

You may revoke your proxy before it is voted by submitting a new proxy with a later date, by voting in person at the meeting or by notifying the Secretary of Advanced Medical Optics in writing at the address under Questions? on page 35.

Votes Needed

Director nominees receiving the largest number of votes cast are elected, up to the maximum number of directors fixed by the board to be elected at the meeting. As a result, any shares not voted (whether by abstention, broker non-vote or otherwise) have no impact on the election of directors, except to the extent that the failure to vote for a particular nominee may result in another nominee receiving a larger number of votes. Approval of the Bonus Plan, approval of the Incentive Compensation Plan and any other matter properly brought before the meeting requires the favorable vote of a majority of the shares of common stock represented at the meeting, in person or by proxy. Abstentions and broker non-votes are counted as if they were votes against each of these proposals.

Attending In Person

Only stockholders, their designated proxies and guests of Advanced Medical Optics may attend the meeting.

ELECTION OF DIRECTORS

(Proposal 1)

General

The first proposal to be voted on at the meeting is the election of three directors. Each of these directors is to be elected as a Class I director for a three-year term expiring at the 2006 annual meeting. The board of directors has nominated Dr. William J. Link, Mr. Michael A. Mussallem and Mr. David E.I. Pyott for these directorships. All of these individuals are currently serving as AMO directors. As part of a private letter ruling request to the IRS regarding our spin-off from Allergan, no director of Allergan can remain both a director of AMO and Allergan for more than one year following the spin-off. Therefore, we expect that Mr. Pyott, the Chairman of the Board, President and Chief Executive Officer of Allergan, will resign from our board mid-year. Biographical information about each of these nominees is included in Director Information below.

The Board of Directors recommends a vote FOR all nominees.

The Board has no reason to believe that any nominee would be unable or unwilling to serve if elected. If a nominee becomes unable or unwilling to accept nomination or election, the board will either select a substitute nominee or reduce the size of the board. If you have submitted a proxy and a substitute nominee is selected, your shares will be voted for the election of the substitute nominee, in the discretion of the proxy holders.

In accordance with our bylaws, directors are elected by a plurality of the votes of shares represented and entitled to be voted at the meeting. That means the three nominees will be elected if they receive more affirmative votes than any other nominees.

Director Information

Our board of directors is separated into three classes, each with a three-year term. The current term of the Class I directors will expire at the 2003 annual meeting, the current term of the Class II directors will expire at the 2004 annual meeting and the current term of the Class III directors will expire at the 2005 annual meeting.

Set forth below is biographical and other information about the persons who will make up the board following the annual meeting, assuming election of the nominees named above.

Nominees for Election as Directors Term Expiring 2006

William J. Link, Ph.D. Class I Age: 56 Director since June 2002 Board committees: Audit and Finance; Science and Technology	Dr. Link is Managing Director and a co-founder of Versant Ventures, a venture capital firm located in Newport Beach, California investing in early-stage health care companies. Prior to co-founding Versant Ventures in 1999, Dr. Link was a general partner at Brentwood Venture Capital, where he invested in a number of early-stage companies. From 1986 to 1997, Dr. Link was Chairman and Chief Executive Officer of Chiron Vision, a subsidiary of Chiron Corporation founded by Dr. Link, which specialized in ophthalmic surgical products and which was later sold to Bausch and Lomb in 1997. Prior to Chiron Vision, Dr. Link founded and served as President of American Medical Optics, a division of American Hospital Supply Corporation, which was sold to Allergan in 1986. Before entering the health care industry, Dr. Link was an assistant professor in the Department of Surgery at the Indiana University School of Medicine. Dr. Link earned his bachelor s, master s and doctorate degrees in mechanical engineering from Purdue University.
Michael A. Mussallem Class I Age: 50 Director since June 2002 Board committees: Audit and Finance; Organization, Compensation and Corporate Governance	Mr. Mussallem is the Chairman of the Board and Chief Executive Officer of Edwards Lifesciences Corporation, a position he has held since 2000, when Edwards Lifesciences was spun off from Baxter International, Inc. Mr. Mussallem joined Baxter in 1979 and was the Group Vice President of Baxter s CardioVascular business from 1994 to 2000 and Group Vice President of Baxter s Biopharmaceutical business from 1998 to 2000. Mr. Mussallem serves on the boards of Edwards Lifesciences Corporation and World Heart Corporation.
David E.I. Pyott Class I Age: 49 Director since October 2001 Board committees: Science and Technology	Mr. Pyott has served as President and Chief Executive Officer of Allergan since January 1998. He has been a Director of Allergan since 1998 and Chairman since 2001. Previously, he was head of the Nutrition Division and a member of the Executive Committee of Novartis AG from 1995 until December 1997. From 1992 to 1995, Mr. Pyott was President and Chief Executive Officer of Sandoz Nutrition Corp., Minneapolis, Minnesota and General Manager of Sandoz Nutrition, Barcelona, Spain from 1990 to 1992. Prior to that, Mr. Pyott held various positions within the Sandoz Nutrition group from 1980. He is a member of the boards of directors of Allergan, Avery-Dennison Corporation and Edwards Lifesciences Corporation.

Directors Continuing in Office Term Expiring 2004

William R. Grant	Mr. Grant is the Chairman of the Board of Directors, a position he has held since January 2002. He is a co-founder of Galen Associates, Inc., a venture capital firm in

Class II

Age: 78

Director since October 2001

Board committees:

Audit and Finance;

Organization, Compensation

and Corporate Governance

the health care industry, and has been its Chairman since 1989. Mr. Grant has over 40 years of experience in the investment banking and risk-capital fields, including substantial experience in the health care industry. From 1987 to 1989 he was Chairman of New York Life International Investment, Inc. Mr. Grant is also a Director of Ocular Sciences, Inc., Vasogen Inc., Quest Diagnostics Incorporated and Massey Energy Company.

Christopher G. Chavez Class II Age: 47 Director since June 2002 Board committees: Organization, Compensation and Corporate Governance; Science and Technology	Mr. Chavez joined Advanced Neuromodulation Systems as President, Chief Executive Officer and Director in April 1998. Prior to joining ANS, Mr. Chavez was Vice President of Worldwide Marketing and Strategic Planning for Eastman Kodak s Health Imaging Division where the division s five worldwide profit centers reported to him. From 1981 to 1997, Mr. Chavez was with Johnson & Johnson Medical, Inc., a major division of Johnson & Johnson. While with J&J, he progressed through several positions in finance, strategic planning, domestic and international marketing, new business development and general management. His most recent position was Vice President and General Manager of the Infection Prevention Business Unit, one of four worldwide business units with approximately one-half billion dollars in sales.

Directors Continuing in Office Term Expiring 2005

James V. Mazzo Class III Age: 45 Director since October 2001 Board committees: Science and Technology	Mr. Mazzo is our President and Chief Executive Officer and has been a member of our board of directors since October 2001. Prior to the spin-off, Mr. Mazzo served in various positions at Allergan, most recently as Allergan s Corporate Vice President, and President, Surgical and CLCP Businesses. From April 1998 to January 2002, Mr. Mazzo was Allergan s Corporate Vice President and President, Europe/Africa/Middle East Region. From January 2001 to January 2002, Mr. Mazzo also assumed the duties of President of Allergan s Global Surgical Business, and from May 1998 to January 2001, he was the President of Global Lens Care Products for Allergan. From June 1997 to May 1998, he was Senior Vice President, U.S. Eyecare/Rx Sales and Marketing, and prior to that he served 11 years in a variety of positions at Allergan, including Director, Marketing (Canada), Vice President and Managing Director (Italy) and Senior Vice President, Northern Europe. Mr. Mazzo first joined Allergan in 1980.
James O. Rollans Class III Age: 60 Director since June 2002 Board committees: Audit and Finance; Organization, Compensation and Corporate Governance	Mr. Rollans is Group Executive of Investor Relations and Corporate Communications for Fluor Corporation, where he is responsible for leading the company s external affairs, including the Investor Relations, Corporate Communications, Community and Government Relations functions. Prior to assuming this role in February 2002, Mr. Rollans served as Group Executive of Business Services (from February 2001). Joining Fluor in 1982, Mr. Rollans tenure with the company has included several positions at the senior executive level, including that of Senior Vice President and Chief Administrative Officer from 1994 to 1998; Senior Vice President and Chief Financial Officer from 1998 to 1999 and from 1992 to 1994; and Vice President of Corporate Communications from 1982 to 1992. He also served as the first President and Chief Executive Officer of Fluor Signature Services, the former business services enterprise of Fluor Corporation from 1999 to 2001. Mr. Rollans is a member of the Boards of Directors of Fluor Corporation and Flowserve Corporation.

Attendance at Meetings

The board of directors of the company met seven times in 2002. Each of the directors attended 75% or more of the aggregate number of regularly scheduled and special board and committee meetings held during the year.

Director Compensation

In 2002, our non-employee directors other than our Chairman received an annual cash retainer of $24,000 and an additional fee of:

- $1,200 for attending each board meeting,
- $1,000 for each committee member attending a committee meeting, and
- $1,500 for each committee chairperson presiding over a committee meeting.

Additionally, our non-employee directors other than our Chairman are entitled to participate in our Incentive Compensation Plan, receiving 20,000 options upon initial election and 6,500 options per year thereafter.

For 2002, our Chairman of the Board received an annual cash retainer of $150,000 and meeting fees as set forth above. The Chairman, as a non-employee director, also received an initial stock option grant of options to purchase 40,000 shares of our common stock at the time of our spin-off, and will receive options to purchase 13,000 shares annually thereafter.

Effective January 2003, the annual cash retainer portion of our non-employee directors compensation was changed, as follows:

- Chairman of the Board: $150,000
- Chairman of the Audit and Finance Committee: $34,000
- Chairman of the Organization, Compensation and Corporate Governance Committee: $29,000
- Chairman of the Science and Technology Committee: $29,000
- Other Board Members: $24,000

In addition, meeting fees were changed, as follows

- Full Board: $1,200 per meeting
- Committee: $1,000 per meeting

Effective April 2003, the non-employee directors may elect to forego some or all of their annual cash retainer in lieu of restricted shares of our stock issued under our 2002 Incentive Compensation Plan, with a face value equal to the amount of the annual cash retainer foregone. These restricted shares vest at the next following annual meeting.

Committees of the Board of Directors

We are managed under the direction of our board of directors. Our board of directors has established an Audit and Finance Committee, an Organization, Compensation and Corporate Governance Committee and a Science and Technology Committee.

Audit and Finance Committee

The Audit and Finance Committee is comprised of Dr. Link and Messrs. Rollans, Grant and Mussallem. Our Board has determined that none of the committee members has a relationship to AMO that may interfere with the exercise of his independence from management and the company. None of the Audit and Finance Committee members is a former employee of the company. None of the Audit and Finance Committee members has a business relationship with the company, or is a partner, controlling stockholder or executive officer of an entity that has a material business relationship with the company. In addition, there is no Audit and Finance Committee member who is employed as an executive of another company where any of the company s executives serve on that other firm s compensation committee. No member of the Audit and Finance Committee is an immediate family member of an individual who is an executive officer of the company or any of its affiliates. Each member of the Audit and Finance Committee is financially literate, in accordance with the qualifications set forth by the company s board of directors in its business judgment. In addition, at least one member of the Audit and Finance Committee has accounting or related financial management expertise, as the board of directors interprets this qualification in its business judgment.

In 2002, the Audit and Finance Committee met three times after its formation in June 2002. The board of directors has adopted a written Charter setting forth the authority and responsibilities of the Audit and Finance Committee, a copy of which is attached to this proxy statement as *Exhibit D*. The Audit and Finance Committee reviews the scope of the audit by the independent auditors, inquires into the effectiveness of our accounting and internal control functions, and recommends to the board of directors any changes in the appointment of independent auditors that the committee may deem to be in the best interests of the company and its stockholders. The Audit and Finance Committee also assists the board of directors in establishing and monitoring compliance with the ethical business practice standards of the company. The committee also has a finance oversight role, including the periodic evaluation of our finance function, capital structure and debt and equity policies and programs. Our independent auditors and our internal financial personnel have regular private meetings and unrestricted access with this committee.

The report of the committee begins on page 32.

Organization, Compensation and Corporate Governance Committee

Our Organization, Compensation and Corporate Governance Committee is comprised of Messrs. Mussallem, Chavez, Grant and Rollans. This committee met three times in 2002 following its formation in June 2002. The Organization, Compensation and Corporate Governance Committee determines the compensation of executive officers and outside directors, exercises authority of the board of directors concerning employee benefit plans and advises the board of directors on other compensation and employee benefit matters. In addition, this committee makes recommendations to the board of directors regarding candidates for election as directors of the company. The committee also advises the board of directors on board committee structure and membership and corporate governance matters. The Organization, Compensation and Corporate Governance Committee consists solely of directors who are independent of management.

The Organization, Compensation and Corporate Governance Committee will consider director candidates proposed by stockholders. To be considered by the committee for the 2004 annual meeting, stockholder submissions must be received at the offices of the company to the attention of the Secretary, Advanced Medical Optics, Inc., 1700 E. St. Andrew Place, Santa Ana, California 92705, between December 31, 2003 and January 30, 2004.

The report of the committee begins on page 23.

Science and Technology Committee

Our Science and Technology Committee is comprised of Dr. Link and Messrs. Chavez, Mazzo and Pyott. The functions of this committee include reviewing our research and development programs and projects to evaluate investment allocations, our portfolio of strategic patents and major technology-based transactions. This committee met twice in 2002 following its formation in June 2002.

CORPORATE GOVERNANCE

Corporate Governance Guidelines

In January 2003, the board of directors approved the Corporate Governance Guidelines, which are published below. These guidelines are being published in this proxy statement to inform our stockholders of the Board s current thinking with respect to selected corporate governance issues that we think may be of interest to stockholders. These are guidelines, not rigid rules, and their publication in this proxy statement should not be interpreted as a representation that they will be strictly followed in each instance. Our board will continue to assess these guidelines and it is likely that changes or exceptions to the guidelines will be considered from time to time.

Role of the Board of Directors

1. The Board of Directors, which is elected by the stockholders, is the ultimate decision-making body of the Company, except with respect to those matters reserved to the stockholders. It selects the senior management team, which is charged with the conduct of the Company s business. Having selected the senior management team, the Board s role is to oversee management. The Board also acts as an advisor and counselor to senior management and ultimately monitors its performance. The Board has complete access to the Company s management. The Board also has access, as necessary and appropriate, to independent legal, financial and accounting advisors to assist in their duties to the Company and its stockholders.

2. The Board of Directors shall support a corporate environment of internal controls, fiscal accountability, ethical standards and compliance with applicable governance policies, laws and regulations. Under Delaware law, each director owes duties of loyalty and care to the Company and is expected to act in the best interests of the Company s stockholders as a whole.

3. It is the general policy of the Company that all major decisions be considered by the Board as a whole. The Board has delegated certain basic responsibilities to three committees: Audit and Finance; Organization, Compensation and Corporate Governance (OCCG); and Science and Technology. The responsibilities of these committees are set forth in their respective charters, which shall be publicly available at all times.

4. The OCCG is responsible for setting annual and long-term performance goals for the CEO and for evaluating his or her performance against those goals on an annual basis. The evaluation is submitted for consideration by the outside directors of the Board in an executive session. The evaluation is then used in the consideration of the CEO s compensation.

5. The OCCG is also responsible for undertaking an annual assessment of the Board s performance. This report will be discussed with the full Board. The assessment will focus on the Board s contribution as a whole and areas in which the Board or management believes a better contribution could be made.

6. The Board plans for succession to the position of Chief Executive Officer as well as certain other senior management positions. To assist the Board, the Chief Executive Officer annually provides the Board with an assessment of senior managers and of their potential to succeed him or her. The Board or the OCCG should also receive at that time an assessment of persons considered potential successors to certain senior management positions and the Company s management development plans.

7.

The Chief Executive Officer is responsible for establishing effective communications with the Company s stakeholders. It is the policy of the Company that designated management speaks for the Company.

Composition of the Board of Directors

8. The members and chairs of Board committees are recommended to the Board by the OCCG in consultation with the Chairman and Chief Executive Officer. The Audit and Finance Committee and the OCCG are

comprised solely of independent directors. Committee members will be rotated as needed. Each committee is responsible for preparing an annual self-evaluation.

9. It is the policy of the Company that the Board consists of a majority of independent directors and that the number of directors not exceed a number that can function efficiently as a body. The OCCG will analyze the independence of its members annually and report to the Board. After receiving the OCCG s report, the Board shall annually review the affiliations of each outside director to determine his or her independence. The Company generally classifies a director as independent if the director meets the following criteria:

(a) is not and has not been employed by the Company in an executive capacity within the five years immediately prior;

(b) is not and has not been affiliated with or employed by a current or former auditor of the Company within the five years immediately prior;

(c) is not and has not been in the prior five years part of an interlocking directorate in which an executive officer of the Company serves on the compensation committee of another company that currently employs the director;

(d) does not beneficially own and is not affiliated with an entity that owns more than 20% of the Company s common stock;

(e) is not (and is not affiliated with a company or a firm that is) a significant advisor or consultant to the Company;

(f) is not affiliated with a significant customer or supplier of the Company;

(g) does not have significant personal services contracts with the Company;

(h) is not affiliated with a tax-exempt entity that receives significant contributions from the Company; and

(i) does not share a home with and is not a spouse; parent; sibling; child; mother or father-in-law; son or daughter-in-law; or brother or sister-in-law of any person described by (a) through (h).

Significant means amounts exceeding 5% of either entity s gross revenues.

The Board may make exceptions to the above classification on a case by case basis.

For purposes of membership on the Audit and Finance Committee, in order to be independent its members must receive no compensation from the Company other than director fees (be they in cash, equity or some other form) and may not serve on the audit committees of more than five public companies at any time without prior Board approval.

10. The OCCG, in consultation with the Chairman and Chief Executive Officer, considers and makes recommendations to the Board concerning the appropriate size and needs of the Board. The OCCG considers and recommends to the full Board candidates to fill new positions created by expansion and vacancies. Board candidates are selected for their character, judgment, business experience and acumen. Scientific expertise and familiarity with issues affecting the Company are also relevant. Final approval of a new candidate is

determined by the OCCG before the decision to invite someone to join the Board is made.

11. The roles of Chairman of the Board and Chief Executive Officer need not be separate. The Board will make this decision in each circumstance in the best interests of the stockholders.

12. Individual directors who change the responsibility they held when they were elected to the Board should tender their resignations to the OCCG for consideration. The OCCG will then recommend to the Board the action, if any, to be taken with respect to the resignation.

13. The Board does not believe that it should establish term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the

contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations.

14. The Company is committed to the continuous education of its Board members. New directors will receive an orientation about the Company, its industry and its corporate governance philosophy.

Board and Committee Meetings

15. The outside directors will meet in executive session at regularly scheduled meetings. The Chairman, if an outside director, will preside over such meetings. If the Chairman is not an outside director, a director will be selected by a majority of the outside directors to chair such discussions.

16. The Chairman and the CEO set the agenda for Board meetings, and the committee chairs set the agendas for the committee meetings. Any member of the Board may request that an item be included on the agenda.

17. Board materials related to agenda items are provided to Board members sufficiently in advance of Board meetings where necessary to allow the directors to prepare for discussion of the items at the meeting. Directors are expected to review such materials prior to the meeting so that Board meeting time may be conserved and discussion time focused on questions that the Board may have about the materials.

18. Regular attendance at Board meetings is important. Directors should attend meetings in person whenever possible. Managers other than the CEO are encouraged to attend Board meetings as necessary.

Director Compensation

19. The OCCG will evaluate director compensation periodically with information provided by Company management and outside consultants. Changes in Board compensation, if any, will be made with the full discussion and approval by the Board.

20. Each director is encouraged to maintain ownership of the Company s common stock. In furtherance of this objective, the Board adopted resolutions on January 28, 2003, which encourage each outside director to own a minimum number of shares of the Company s common stock equal to three times the director s annual cash retainer, within five years of the individual first becoming a director.

Stock Ownership Guidelines

In January 2003, we adopted stock ownership guidelines for our directors (as discussed in the Guidelines above) and executive officers. Within five years of January 2003, we would like each of our executive officers to own a number of shares having a value computed as follows:

- Chief Executive Officer, 3.5 times base salary
- Corporate Vice President, 2 times base salary

- Vice Presidents and Senior Vice Presidents, 1 times base salary

APPROVAL OF THE ADVANCED MEDICAL OPTICS, INC.

2002 BONUS PLAN

Proposal 2

General

Our board of directors has approved the Advanced Medical Optics, Inc. 2002 Bonus Plan, regarding annual bonuses to be paid to our management level employees. Allergan, as our sole stockholder before the spin-off, also approved the plan. We are seeking public stockholder approval of the plan to enable us to meet the tax deductibility requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Tax Code).

The following is a summary of the principal features of the plan. The summary is qualified by and subject to the actual provisions of the plan attached to this proxy statement as *Exhibit B*.

Summary of the Bonus Plan

The primary purposes of the plan are to attract and retain highly qualified individuals; to obtain from each the best possible performance; and to include in such individual s compensation package an annual incentive component which is tied to the accomplishment of specific corporate and individual objectives that enhance value for our stockholders. We seek stockholder approval of the plan in order to permit us to deduct from our taxes compensation paid to the CEO and other highly paid executives in the form of bonus. Without stockholder approval of the plan, bonus compensation paid to the CEO and certain other executives will count toward the $1 million tax deductibility limit, and we are likely to lose a substantial tax benefit.

The plan is administered by the Organization, Compensation and Corporate Governance Committee of the board of directors (the Committee). The plan limits the constituency of the Committee to directors who are considered outside directors for purposes of Tax Code Section 162(m). Under the terms of the plan, all regular full-time and part-time employees scheduled to work 20 or more hours per week in salary grades 6E and above (in the United States and Puerto Rico) and 7E and above (outside of the United States and Puerto Rico) are eligible for participation. In total, this represents approximately 180 people.

Incentive compensation under the plan is based on the achievement of performance objectives established by the Committee for each plan year. Plan years coincide with calendar years. Until further notice and resubmission to stockholders for approval, the performance objectives will be based on any of the following criteria, either alone or in any combination, and measured either on an absolute basis, relative basis against a pre-established target, and/or peer group, or prior year s performance as the Committee determines:

- revenue (sales),

- cash flow,
- earnings per share (including earnings before interest, taxes and amortization),
- return on equity,
- total stockholder return,
- return on capital,
- return on assets or net assets,
- income or net income,
- operating income or net operating income,
- operating profit or net operating profit,
- operating margin, or
- market share.

No later than 90 days from the beginning of each plan year (or such longer time permitted by Section 162(m)), the Committee will establish, in writing, the specific performance objectives which must be achieved in order for any award to be earned, the objective bonus formula for computing a bonus if the performance objectives are achieved, and targeted bonus for each 162(m) participant for the plan year. The maximum bonus that may be earned by any 162(m) participant in any given calendar year may not exceed $2,000,000.

If the performance objectives are satisfied, the Committee shall certify in writing, prior to the payment of any performance award, that such objectives were satisfied. Awards under the plan which are based on achieving certain performance objectives, the amount of which are determined by formula, will qualify as performance-based compensation, assuming stockholder approval of the plan is obtained. However, the plan does not limit the Committee s authority to grant additional bonus awards outside of the plan. Any such additional awards would not qualify as performance-based compensation for purposes of Tax Code Section 162(m) and would be subject to the $1 million deduction limitation. Awards under the plan are payable only in cash.

If a change in control (as defined in the 2002 Incentive Compensation Plan) occurs during a plan year, participants are paid a bonus prorated to the effective date of the change in control, and all performance objectives will be deemed to be met at the greater of 100% of the target or the actual prorated year-to-date performance. Participants must be employed by us or our successor on the effective date of the change in control in order to receive the prorated payment, unless employment is terminated for retirement, death or disability or otherwise without cause.

If stockholders do not approve this proposal, the plan will still remain in effect.

The board of directors recommends that stockholders vote FOR the approval of the Advanced Medical Optics, Inc. 2002 Bonus Plan.

APPROVAL OF THE ADVANCED MEDICAL OPTICS, INC.

2002 INCENTIVE COMPENSATION PLAN

Proposal 3

General

Our board of directors has approved the Advanced Medical Optics, Inc. 2002 Incentive Compensation Plan. Allergan, as our sole stockholder before the spin-off, also approved the plan. We designed the plan to allow for the grant of certain types of awards that conform to the requirements for tax deductible performance-based compensation under Section 162(m) of the Tax Code. The purpose of submitting the plan to our public stockholders at this Annual Meeting is to allow awards granted under the plan to our executive officers to qualify as performance-based compensation under Section 162(m) of the Tax Code. This will allow us to preserve the tax-deductibility of awards without regard to the limitations of Section 162(m) of the Tax Code.

The following is a summary of the principal features of the plan. The summary is qualified by and subject to the actual provisions of the plan attached to this proxy statement as *Exhibit C*.

Summary of the Incentive Compensation Plan

Purpose and Eligibility

The purpose of the plan is to advance our interests and those of our stockholders by affording our directors, employees and consultants an opportunity to acquire or increase a proprietary interest in AMO or to otherwise benefit from our success through the grant of stock options, dividend equivalents, restricted stock, stock appreciation rights, stock payments, performance awards or other awards granted or sold under the plan (collectively referred to in this proxy statement as incentive awards). We thereby seek to attract, retain and motivate those highly competent individuals upon whose judgment, initiative, leadership and continued efforts our success in large measure depends.

All of our regular, full-time employees, our independent directors, and certain consultants are eligible to receive incentive awards under the plan if selected by the Organization, Compensation and Corporate Governance Committee (the Committee) of our board of directors. Currently, all of our approximately 2,000 employees are eligible for selection, in addition to our six independent directors. The target population for regular grants of awards is approximately 180 employees.

In connection with our spin-off, we granted approximately 2.6 million nonqualified stock options under the plan to our employees who held unvested options under the Allergan, Inc. 1989 Incentive Compensation Plan. See page 24 of this proxy statement for more information on how those Allergan stock options were converted into AMO options.

Administration, Amendment and Termination

The Committee administers our plan and is comprised of two or more persons appointed by our board of directors. All Committee members must be both independent directors as defined by Rule 16b-3 under the Securities Exchange Act of 1934, and independent directors for purposes of Section 162(m) of the Tax Code. The Committee has the authority to interpret the plan, determine the terms and conditions of incentive awards and make all other determinations necessary and/or advisable for the administration of the plan. The Committee may, with the consent of a participant, amend the terms of any existing incentive award previously granted to the participant, in a manner consistent with the plan. The Committee may not, however, reduce the exercise price of an outstanding stock option without first obtaining approval from our stockholders. The Committee also has authority to prescribe, amend and rescind rules and regulations relating to the plan.

Our board of directors may alter, amend, suspend or terminate the plan at any time. However, no such action may increase the maximum number of shares that may be sold or issued under the plan or alter the class of eligible participants without the approval of the stockholders.

Dividend Equivalents

The Committee may, in its discretion and at no additional cost, grant a holder of an incentive award denominated in shares of our common stock an amount payable in cash, common stock or a combination thereof that is equivalent to the amount of dividends paid to stockholders who own an equal number of shares of common stock.

Option Grants to Employees and Consultants

Stock options granted under the plan may be incentive stock options intended to qualify under the provisions of Tax Code Section 422 (ISO) or nonqualified stock options which do not so qualify. The Committee determines the exercise price of common stock that is subject to an option at the date the option is granted. The exercise price may be less than the fair market value on the date of grant of the common stock subject to an option; however, the exercise price for an ISO may not be less than the fair market value on the date of grant of the common stock subject to such ISO. Options may be exercised as determined by the Committee provided that an ISO may not be exercised after ten years from the date of grant.

The plan provides for automatic acceleration of vesting of options in the event of a change in control or an employee s termination due to death, total disability or job elimination. In the event employment terminates for cause, all options, vested and unvested, expire on the date of termination. In all other situations, options are exercisable upon termination only to the extent vested, unless otherwise determined by the Committee.

Option Grants to Independent Directors

Our plan provides for automatic annual grants of stock options to our independent directors. Upon being appointed Chairman of our Board, an independent director receives an option to purchase 40,000 shares of common stock. On the date of each annual meeting of stockholders thereafter, the Chairman receives an option to purchase 13,000 shares. For the other independent directors, the plan provides for an initial grant of an option to purchase 20,000 shares and thereafter 6,500 per year. Our board of directors may also grant additional options to our independent directors at any time, including in lieu of cash director fees.

Unless otherwise determined by the board, the exercise price of all director options is equal to the fair market value, and the options vest on the day preceding the next annual meeting of stockholders. All director options have a term of ten years and accelerate vesting upon a change in control.

Performance Awards

The Committee may grant awards, payable in cash, common stock or a combination thereof to employees and consultants, with the terms and conditions determined by the Committee at the time of grant. The Committee shall determine the performance criteria to be utilized to calculate the value of the performance awards, the term of such performance awards, the event or events giving rise to the right to payment of a performance award, and the form (cash and/or common stock) and time of payment of performance awards.

The performance criteria may be any one of the following:

- net income;
- pre-tax income;
- operating income;

- cash flow;
- earnings per share;
- return on equity;
- return on invested capital or assets;
- cost reduction or savings;
- funds from operations;
- appreciation in the fair market value of our common stock; or
- earnings before any one or more of the following items: interest, taxes, depreciation or amortization.

Restricted Stock

The Committee may award restricted stock to employees, consultants and independent directors. Shares of restricted stock are nontransferable and subject to a substantial risk of forfeiture until specific conditions are met as set forth in the plan and in any statement evidencing the grant. The Committee determines the purchase price (if any), terms of payment of the purchase price, restrictions upon the restricted stock and when such restrictions shall lapse.

Upon a participant s termination of employment, consultancy or directorship for death or total disability, restrictions on all shares lapse. In the event an employee is terminated for job elimination, restrictions lapse on a prorated number of shares. In all other cases, all shares of restricted stock are forfeited and are repurchased by us if the participant paid any purchase price.

Stock Appreciation Rights

The Committee may approve the grant to employees or consultants of a stock appreciation right, or a right to receive a number of shares of common stock or, in the discretion of the Committee, an amount in cash or a combination of shares and cash, based on the increase in the fair market value of the shares subject to the right during such period as is specified by the Committee. They may be related or unrelated to stock options.

Stock Payments

The Committee may approve payments in shares of our common stock to replace all or any portion of the compensation (other than base salary) that would otherwise become payable to any regular, full-time employee or consultant in cash.

Securities Subject to Plan

The aggregate number of shares of common stock issuable under the plan is 6.7 million (including options to purchase approximately 2.6 million shares issued when Allergan options were converted to AMO options at the time of our spin-off). Shares subject to the unexercised portion of any incentive award that expires, terminates or is canceled and shares issued pursuant to an incentive award that we reacquire will again become available for the grant of further incentive awards under the plan.

The plan provides that the maximum number of shares with respect to which incentive awards may be granted to any individual in any given calendar year is 500,000. The maximum dollar amount of performance awards paid in cash in the aggregate to any individual in any calendar year is $500,000.

The maximum number of shares issuable under the plan, the number and kind of shares or other securities subject to then outstanding incentive awards, and the price for each share or other unit of any other securities subject to then outstanding incentive awards, will be appropriately and proportionately adjusted to reflect mergers, consolidations, sales or exchanges of all or substantially all of our properties, reorganizations, recapitalizations, reclassifications, stock dividends, stock splits, reverse stock splits, spin-offs or other distributions with respect to such shares of common stock (or any stock or securities received with respect to such common stock) or a reduction in the value of the outstanding shares of common stock by reason of an extraordinary cash dividend.

On March 6, 2003, the closing price of the Company s common stock on the New York Stock Exchange was $12.48 per share.

New Plan Benefits

The following automatic grants of stock options to our independent directors are the only benefits determinable for 2003 under any plan submitted to you for approval at this meeting. Each nominee for election as a director will receive 6,500 options in 2003 as part of this automatic grant.

Advanced Medical Optics, Inc.

2002 Incentive Compensation Plan

Name and Position	Number of Non-Qualified Stock Options
Non-Executive Director Group	45,500

Federal Income Tax Consequences

The following is a brief description of the federal income tax treatment which will generally apply to incentive awards made under the plan, based on federal income tax laws in effect on the date hereof. The exact federal income tax treatment of an incentive award will depend on the specific nature of the incentive award. Such an incentive award may, depending on the conditions applicable to the incentive award, be taxable as an option, as restricted or unrestricted stock, as a cash payment, or otherwise. Employees that participate in the plan are advised to consult with their own tax advisor for particular federal, as well as state and local, income and any other tax advice.

Incentive Stock Options. Pursuant to the plan, employees may be granted options which are intended to qualify as ISOs under the provisions of Section 422 of the Tax Code. Generally, the optionee is not taxed and we are not entitled to a deduction on the grant or the exercise of an ISO. However, if the optionee sells the shares acquired upon the exercise of an ISO (ISO Shares) at any time within (a) one year after the date of transfer of ISO Shares to the optionee pursuant to the exercise of such ISO or (b) two years after the date of grant of such ISO, then (1) the optionee will recognize capital gain equal to the excess, if any, of the sales price over the fair market value of the ISO Shares on the date of exercise, (2) the optionee will recognize ordinary income equal to the excess, if any, of the lesser of the sales price or the fair market value of the ISO Shares on the date of exercise, over the exercise price of such ISO, (3) the optionee will recognize capital loss equal to the excess, if any, of the exercise price of such ISO over the sales price of the ISO Shares, and (4) we will generally be entitled to a deduction equal to the amount of ordinary income recognized by the optionee. If the optionee sells the ISO Shares at any time after the optionee has held the ISO Shares for at least (i) one year after the date of transfer of the ISO Shares to the optionee pursuant to the exercise of the ISO and (ii) two years after the date of grant of the ISO, then the optionee will recognize capital gain or loss equal to the difference between the sales price and the exercise price of such ISO, and we will not be entitled to any deduction.

The amount by which the fair market value of the ISO Shares received upon exercise of an ISO exceeds the exercise price will be included as a positive adjustment in the calculation of an optionee s alternative minimum taxable income (AMTI) in the year of exercise. The alternative minimum tax imposed on individual taxpayers is generally equal to the amount by which 28% (26% of AMTI below certain amounts) of the individual s AMTI (reduced by certain exemption amounts) exceeds his or her regular income tax liability for the year.

Nonqualified Options. The grant of an option or other similar right to acquire stock which does not qualify for treatment as an ISO is generally not a taxable event for the optionee. Upon exercise of the option, the optionee will generally recognize ordinary income in an amount equal to the excess of the fair market value of the stock acquired upon exercise (determined as of the date of the exercise) over the exercise price of such option, and we will be entitled to a tax deduction equal to such amount.

Restricted Stock. Incentive awards under the plan may also include the grant or sale of restricted stock. Unless the recipient makes an election within 30 days after the receipt of the restricted stock, the recipient generally will not be taxed on the receipt of restricted stock until the restrictions on such stock expire or are removed. When the restrictions expire or are removed, the recipient will recognize ordinary income (and we will be entitled to a deduction) in an amount equal to the excess of the fair market value of the stock at that time over the purchase price (if any). However, if the recipient makes an election within 30 days of the receipt of restricted stock, he or she will recognize ordinary income (and we will be entitled to a deduction) equal to the excess of the fair market value of the stock on the date of receipt (determined without regard to vesting restrictions) over the purchase price (if any).

Stock Appreciation Rights. Recipients of SARs generally do not recognize income upon the grant of such rights. When a participant elects to receive payment of an SAR, the participant recognizes ordinary income in an amount equal to the cash and fair market value of shares of common stock received, and we are entitled to a deduction equal to such amount.

Performance Awards, Dividends, and Dividend Equivalents. A payment made under a performance award (*e.g.*, stock and cash bonuses), dividends, and dividend equivalent payments is taxable as ordinary income when actually or constructively received by the recipient. As to any performance award paid in common stock, the amount taxable as ordinary income is the aggregate fair market value of the common stock determined as of the date received. We are entitled to deduct the amount of a performance award, dividends, and dividend equivalent payments when such amounts are taxable as compensation to the recipient.

Miscellaneous Tax Issues. Incentive awards may be granted under the plan which do not fall clearly into the categories described above. The federal income tax treatment of these incentive awards will depend upon the specific terms of such awards. Generally, we will be required to make arrangements for withholding applicable taxes with respect to any ordinary income recognized by a participant in connection with incentive awards made under the plan.

Special rules will apply in cases where a recipient of an incentive award pays the exercise or purchase price of the incentive award or applicable withholding tax obligations under the plan by delivering previously owned shares of common stock or by reducing the amount of shares otherwise issuable pursuant to the incentive award. The surrender or withholding of such shares will in certain circumstances result in the recognition of income with respect to such shares or a carryover basis in the shares acquired.

The plan generally provides for accelerated vesting or payment of incentive awards in connection with a change in ownership or control. In that event and depending upon the individual circumstances of the recipient, certain amounts with respect to such awards may constitute excess parachute payments under the golden parachute provisions of the Tax Code. Pursuant to these provisions, a recipient will be subject to a 20% excise tax on any excess parachute payments and we will be denied any deduction with respect to such payment. Recipients of incentive awards are advised to consult their tax advisors as to whether accelerated vesting of an incentive award in connection with a change of ownership or control would give rise to an excess parachute payment.

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We generally obtain a deduction equal to the ordinary income recognized by the recipient of an incentive award. Our deduction for such amounts (including amounts attributable to the ordinary income recognized with respect to options, restricted stock, SARs, and performance awards) may be limited under Tax Code Section 162(m) to $1 million (per person) annually if this plan is not approved by our public stockholders. The $1 million annual limit generally only applies to nonperformance-based compensation paid to our CEO and our other four most highly compensated officers.

If stockholders do not approve this proposal, the plan will still remain in effect.

The board of directors recommends that stockholders vote FOR the approval of the Advanced Medical Optics, Inc. 2002 Incentive Compensation Plan.

OWNERSHIP OF OUR STOCK

Beneficial Owners of More than 5% of the Company s Common Stock. The following table sets forth information with respect to the beneficial ownership of our outstanding common stock, as of January 31, 2003, by each person who is known by us to be the beneficial owner of 5% or more of our common stock:

Beneficial Owner	Shares of Common Stock Beneficially Owned[(1)]	Percent of Class
Wellington Management Company, LLP 75 State Street Boston, MA 02109	3,428,166[(2)]	11.93%
Greenlight Capital, LLC 420 Lexington Avenue, Suite 1740 New York, NY 10170	3,120,000[(3)]	10.86%

(1) Beneficial ownership is calculated based on 28,735,868 shares of our common stock outstanding as of January 31, 2003 (excluding treasury shares). Beneficial ownership is determined in accordance with Securities and Exchange Commission rules. To our knowledge, except pursuant to applicable community property laws or as otherwise indicated, each person named in the table has the sole voting and investment power with respect to the shares set forth opposite such person s name.

(2) Based solely on information contained in the Schedule 13G/A dated February 14, 2003, filed with the Securities and Exchange Commission by Wellington Management Company, LLP, which reported ownership of our stock as of December 31, 2002. According to such Schedule 13G/A, Wellington Management Company, LLP is an investment adviser that may be deemed to beneficially own 3,428,166 shares of our common stock, which are held of record by its clients. Of such aggregate number of shares, Wellington Management Company, LLP reports that it has sole power to vote or direct the vote of none of such shares, shared power to vote or direct the vote of 2,208,100 of such shares, sole power to dispose or direct the disposition of none of such shares, and shared power to dispose or to direct the disposition of all of such shares.

(3) Based solely on information contained in the Schedule 13G/A dated November 14, 2002, filed with the Securities and Exchange Commission by Greenlight Capital, LLC, which reported ownership of our stock as of October 9, 2002. According to such Schedule 13G/A, Greenlight Capital, LLC, together with its principals, David Einhorn and Jeffrey A. Keswin, has sole power to vote and dispose of all of such shares.

Security Ownership of Directors and Executive Officers. Presented below is information concerning the amount of company stock beneficially owned by:

- each director and director nominee,
- each non-director officer named in the Summary Compensation Table appearing on page 26,

- and all directors and executive officers of the company as a group.

All numbers stated are as of March 1, 2003, and include beneficial ownership of shares of common stock. Except as otherwise indicated, sole voting and investment power exists with respect to all shares listed as beneficially owned. No individual named below beneficially owns more than 1% of the company s outstanding voting stock. The shares beneficially owned by all directors and executive officers as a group constitute 1.81% of the company s outstanding voting stock, based upon 28,752,070 shares outstanding (excluding treasury shares). In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that are exercisable within 60 days of March 1, 2003 are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage of each other person.

Beneficial Owner (1)	Shares of Common Stock Beneficially Owned (2)	Rights to Acquire Beneficial Ownership (3)	Total
William R. Grant	5,641	40,000	45,641
Christopher G. Chavez		20,000	20,000
William J. Link, Ph.D.		20,000	20,000
James V. Mazzo	4,156 (4)	154,434	158,590
Michael A. Mussallem		20,000	20,000
David E.I. Pyott	9,272	20,000	29,272
James O. Rollans		20,000	20,000
Holger Heidrich, Ph.D.	10,043	85,256	95,299
Richard A. Meier	15,005		15,005
C. Russell Trenary, III	2		2
Aimee S. Weisner	342	31,857	32,199
All current directors and executive officers (16 persons, including those named above)	45,725	484,212	529,937

(1) The business address of each stockholder is c/o Advanced Medical Optics, Inc., 1700 E. St. Andrew Place, Santa Ana, California 92705.

(2) In addition to shares held in the individual s sole name, this column also includes shares held in various trusts and, for employees, includes shares held in trust for the benefit of the named employee in the Advanced Medical Optics, Inc. 401(k) Plan as of March 1, 2003.

(3) Shares which the party or group has the right to acquire within 60 days after March 1, 2003 upon the exercise of stock options granted under the Advanced Medical Optics, Inc. 2002 Incentive Compensation Plan.

(4) Includes 16 shares held in trust for a minor child of Mr. Mazzo s.

COMPARISON OF CUMULATIVE TOTAL RETURN

The following chart shows a comparison of the total cumulative return based upon a $100 investment from July 1, 2002 (the date on which our common stock began regular trading on the New York Stock Exchange) through December 31, 2002, of our common stock, the Standard & Poor s 500 Composite Index and the Standard & Poor s Small Cap Healthcare Equipment and Services Index. Data for the Standard & Poor s 500 Composite Index and the Standard & Poor s Small Cap Healthcare Equipment and Services Index assume reinvestment of dividends. We have never paid dividends on our common stock, and have no current plans to do so. Historical results are not necessarily indicative of future performance.

Performance Graph

		7/1/2002	9/30/2002	12/31/2002
AMO	**Return**	0.00	-7.58	16.33
	Index	100.00	92.42	116.33
S&P 500	**Return**	0.00	-15.47	-8.34
	Index	100.00	84.53	91.66
S&P Small Cap Healthcare Equipment & Services Index	**Return**	0.00	-2.86	-0.30
	Index	100.00	97.14	99.70

Section 16(a) Beneficial Ownership Reporting Compliance

The company s directors and executive officers are required to file reports with the Securities and Exchange Commission concerning their ownership of company stock. Based on the company s review of such reports, all officer and director reports were filed on a timely basis and there are no known failures to file by directors and executive officers during 2002. Prior to our spin-off, Allergan owned 100% of our shares of common stock. Allergan filed its Form 3, Initial Statement of Beneficial Ownership of Securities, on June 4, 2002, 20 days after it was due.

EXECUTIVE OFFICERS

Set forth below are the names and ages of each of our executive officers, their positions with the company, and summaries of their backgrounds and business experience. (For information on the business experience of Mr. Mazzo, the Company s President and Chief Executive Officer, see Directors Continuing in Office Term Expiring 2005 on page 4 above.)

Max Akedo, 57, is President and Representative Director of AMO Japan. Mr. Akedo served as President and Representative Director of Allergan Japan from June 1999 until the spin-off. Prior to joining Allergan Japan, Mr. Akedo was General Manager of Novartis Consumer Health Japan since April 1997 and General Manager of Bristol Myers Squibb Lion KK since 1984.

Robert F. Gallagher, 44, has been our Vice President, Controller since February 2002. Mr. Gallagher has over 16 years of financial management experience in our industry. He previously served in a variety of positions at Bausch & Lomb and its acquired business, Chiron Vision, since 1995, most recently as Vice President, Finance of Bausch & Lomb s Global Surgical Products business. From 1985 to 1995, Mr. Gallagher was employed by Allergan in various financial management positions of increasing responsibility, including Vice President, Controller for North East Asia and Controller for Puerto Rico operations.

Holger Heidrich, Ph.D., 50, is our Corporate Vice President and President of our Europe, Africa, Asia Pacific region. Prior to joining us, Dr. Heidrich served as Senior Vice President and Head of Surgical Business of Allergan in the Europe/Africa/Middle East region from May 1998 to January 2002. From July 1996 to January 2002, Dr. Heidrich also assumed the duties of Head of Central Europe Area and Managing Director of Allergan Germany/ Austria. From 1990 to 1996, Dr. Heidrich was Director of the Contact Lens Care Division of Allergan in Central Europe. From 1986 to 1989, Dr. Heidrich served as Division Director, Pharmaceutical & Surgical, at Pharm-Allergan GmbH, an Allergan subsidiary. He joined Allergan in 1985 as Marketing & Sales Director for Germany. Prior to joining Allergan, Dr. Heidrich held sales and marketing positions at Montedison Pharmaceutical and Ciba Geigy, and was Assistant Professor in Economics at the University Freiburg in Germany.

Richard A. Meier, 43, has served as our Corporate Vice President and Chief Financial Officer since April 2002. Prior to joining us, Mr. Meier was Executive Vice President and Chief Financial Officer of ICN Pharmaceuticals, Inc. Before joining ICN, Mr. Meier was a Senior Vice President with the investment banking firm of Schroder & Co. Inc. in New York from 1996 until joining ICN in 1998. Prior to Mr. Meier s experience at Schroder & Co., he held various financial and banking positions at Salomon Smith Barney and Manufacturers Hanover Corporation. Mr. Meier has also held positions with the private equity firm of Australia Capital Equity and Windsor Hall Partners, as well as a financial management role with Greyhound Lines, Inc.

Francine D. Meza, 46, has served as our Senior Vice President, Human Resources since June 2002. From 1984 through our spin-off in June 2002, Ms. Meza served in various human resources positions at Allergan and its acquired business, American Medical Optics. Most recently, Ms. Meza was Vice President, Human Resources for worldwide operations at Allergan from March 1995.

Peter P. Nolan, 47, has served as our Senior Vice President, Operations, since February 2003, and was our Vice President, Operations from May 2002. Prior to joining us, Mr. Nolan was employed by GN ReSound Corporation since 1994, where from 1998 to 2002 he held the position Senior Vice President, Global Operations.

From 1996 to 1998, he was Vice President of Manufacturing, in addition to serving as General Manager of ReSound Ireland Ltd. From 1985 to 1994, Mr. Nolan held a number of management positions with Wang Laboratories Ireland B.V., including General Manager, Manufacturing Manager and Manager, European Software and Manufacturing Distribution Center. Prior to joining Wang Laboratories, Mr. Nolan held various manufacturing and materials management positions with Digital Equipment International B.V., Atari Ltd., Varian Instruments, Ltd., and Westinghouse Electronics Ltd.

Jane E. Rady, 54, has been our Corporate Vice President, Strategy and Technology since April 2002. Prior to joining us, Ms. Rady was a director and the Chief Executive Officer of Integrated Genomics, Inc. From 1984 to 2000, Ms. Rady was employed by G.D. Searle & Co./Monsanto in various capacities including President and General Manager of Searle s international joint venture, Lorex Pharmaceuticals Ltd., Vice President of Corporate Licensing & Business Development, and Vice President of Strategic Planning.

C. Russell Trenary, III, 45, has been our Corporate Vice President and President, Americas Region since April 2002. From 1996 to November 2001, Mr. Trenary was the President of Sunrise Technologies International, Inc., and from 1997 to November 2001, he held the additional title of Chief Executive Officer. Sunrise filed a Chapter 7 bankruptcy in September 2002, nearly one year after Mr. Trenary s departure. From 1995 to 1996, Mr. Trenary was Senior Vice President, Worldwide Sales and Marketing, of Vidamed, Inc. Mr. Trenary began his career in 1981 with American Hospital Supply Corporation, which was acquired by Allergan in 1986 and which was the basis of Allergan s entering the ophthalmic surgical products business. While at Allergan from 1987 to 1995, Mr. Trenary held positions of increasing responsibility in the surgical products business, culminating as Senior Vice President and General Manager of AMO Surgical Products, a position he held from 1991 to 1995.

Aimee S. Weisner, 34, is our Corporate Vice President, General Counsel and Secretary, and also serves as our Chief Ethics Officer. Ms. Weisner served as Vice President and Assistant General Counsel of Allergan from January 2002 through June 2002 and as an Assistant Secretary of Allergan from November 1998 to April 2002. Prior to January 2002, Ms. Weisner served as Corporate Counsel of Allergan, which she joined in 1998. From 1994 to 1998, Ms. Weisner was an attorney with the law firm of O Melveny & Myers LLP.

EXECUTIVE COMPENSATION

Report of the Organization, Compensation and Corporate Governance Committee

The Organization, Compensation and Corporate Governance Committee is comprised of four independent, non-employee directors and is responsible for administering the compensation program for our executive officers. In determining the appropriate compensation for the executive officers, including the named executive officers, the committee relies on input from leading compensation consultants and also reviews the recommendations of management. The committee has provided the following report on executive compensation for inclusion in this proxy statement.

Compensation Philosophy for Executive Officers. Our executive compensation program is designed to attract, motivate and retain the executive talent needed to optimize stockholder value in a competitive environment. Our executive compensation program is designed to provide:

- levels of base compensation that are competitive with comparable optical medical device companies;
- annual incentive compensation that varies in a consistent manner with the achievement of corporate and individual performance objectives; and
- long-term incentive compensation that focuses executive efforts on building stockholder value through meeting longer-term financial and strategic goals.

In designing and administering our executive compensation program, we attempt to strike an appropriate balance among these various elements. The proportions of these components of compensation vary among the officers depending on their levels of responsibility, but generally a significant amount of pay for executive officers is comprised of long-term, at-risk pay to focus management on the long-term success of stockholders.

Compensation Elements.

Base Salary. The committee regularly reviews each executive officer s base salary. Base salaries are targeted at the 50th percentile of salaries of executive officers in comparator companies and are adjusted by the committee to recognize varying levels of responsibility, prior experience, and breadth of knowledge. Increases in base salary are driven primarily by individual performance and competitive market practice. Individual performance is evaluated based on sustained levels of individual contribution to the corporation.

Annual Incentives. We implemented the 2002 Bonus Plan in July 2002, immediately after our spin-off. The plan promotes our pay-for-performance philosophy by providing executives with direct financial incentives in the form of annual cash bonuses to achieve corporate financial, operational and individual performance goals. Achievement of corporate objectives determines the funding of the plan and is measured by pre-established financial performance targets. Once funded, the bonus pool is allocated to our business units based on each unit s respective results, and then within the business units the achievement of individual objectives determines the amount of the bonus pool awarded to individual executives.

For 2002 the committee established a corporate financial goal tied to earnings per share for the period of July through December. The bonus pool generated was then allocated to the business units and functions based on performance relative to operating cash flow and revenue growth targets, and for our research and development organization an additional element regarding milestone achievement.

Long-term Incentives. We established our 2002 Incentive Compensation Plan at the time of our spin-off. Our long-term incentives are primarily in the form of stock option awards. However, restricted stock may also be granted on a selected basis to attract, retain and motivate key executives critical to our long-term success. In addition, performance units and performance shares may also be granted in the future to further align executive compensation with our financial success. The objective of these awards is to advance our longer-term interests and those of our stockholders and to complement incentives tied to annual performance. These awards will provide rewards to executives based upon the creation of incremental stockholder value. Our goal is to target the 75th percentile of our comparator group for establishing long-term incentives.

Stock options will only produce value to executives if the price of our stock appreciates, thereby directly linking the interests of executives with those of stockholders. We base the size of stock option grants on competitive practices of comparator companies, with adjustments made based on individual factors such as the executive s performance in the prior year and the executive s potential for continued sustained contributions to our success. In order to preserve the linkage between the interests of executives and those of stockholders, the executives are expected to use the shares obtained on the exercise of their stock options, after satisfying the cost of exercise and taxes, to establish a significant level of direct ownership in accordance with our stock ownership guidelines.

At the time of our spin-off, unvested Allergan stock options granted under Allergan s 1989 Incentive Compensation Plan held by our employees (including some of our named executive officers) were cancelled and reissued under our 2002 Incentive Compensation Plan as options to purchase our common stock. The reissued options retained approximately the same economic value as the related cancelled options. The number of shares purchasable under each reissued option, and the exercise price for each option, were determined by using conversion ratios required by generally accepted accounting principles. All other terms and conditions of the converted stock options remained substantially the same as those in effect prior to our spin-off.

To recognize the achievements and efforts undertaken to accomplish the spin-off, and to motivate and retain our employees, we granted stock options to most of our employees worldwide (including the named executive officers). This special, one-time Founders Grant was made at fair market value in July 2002, vests ratably over four years, and terminates ten years from the date of grant.

Compensation of the Chief Executive Officer. Mr. Mazzo s annual base salary was set at $450,000 for 2002 (effective June 29, 2002). In determining Mr. Mazzo s base salary for 2002, the committee considered competitive data, his experience level, and his performance as Chief Executive Officer of the company. The committee awarded Mr. Mazzo a bonus of $266,780 for the period of July through December 2002. The committee determined the award by considering the following factors, among others:

- Mr. Mazzo led a successful execution of the spin-off in a challenging economic environment and effectively accommodated all of the corporation s important constituencies (such as customers, employees, analysts and stockholders) through communications and investor relations programs;

- the corporation exceeded the earnings per share, revenue and operating cash flow targets established by the committee for funding Mr. Mazzo s bonus; and

- Mr. Mazzo led the corporation in adopting an ethics and compliance program and exemplary corporate governance standards, establishing AMO s commitment to legal and ethical conduct as the corporation s highest priority.

As part of our Founders Grant in July 2002, the committee granted to Mr. Mazzo options to purchase 240,000 shares of our common stock. The committee considered a number of factors in determining the number of options, including competitive market data, the performance of the businesses transferred to us from Allergan during the first half of 2002, and Mr. Mazzo s individual performance in leading the successful execution of our spin-off. Mr. Mazzo also received stock options at the time of the spin-off when certain unvested Allergan options were converted into AMO options, as discussed above.

Policy Regarding Section 162(m). Section 162(m) of the Internal Revenue Code generally limits the corporate deduction for compensation paid to executive officers named in the proxy statement to $1 million, unless certain requirements are met. The committee has considered the impact of this tax code provision. We attempt, to the extent practical, to implement compensation policies and practices that maximize the benefit of tax laws for our stockholders by seeking performance-based exemptions under the tax laws. However, from time to time the committee may award compensation which is not fully deductible if the committee determines that the award is consistent with its philosophy and is in the best interests of AMO and its stockholders.

We designed the 2002 Bonus Plan and the 2002 Incentive Compensation Plan to meet the criteria of Section 162(m). Accordingly, we have submitted both plans to the stockholders for approval at this meeting in order to meet the stockholder approval requirements of Section 162(m).

The Organization, Compensation and Corporate Governance Committee:

Michael A. Mussallem, Chair

Christopher G. Chavez

William R. Grant

James O. Rollans

Compensation Tables

We did not have any employees or pay any salaries until after our spin-off from Allergan on June 29, 2002. Although certain of the individuals who serve as our executive officers were performing services in connection with our businesses prior to June 29, 2002, those individuals were employed by Allergan during such period, were not dedicated exclusively to our businesses and, in fact, devoted substantial time and effort to other Allergan businesses or to the Allergan organization in general. Accordingly, no information on the compensation of executive officers earned before June 29, during the pre-spin period of 2002, is included. The individuals named in the following tables are described elsewhere in this proxy statement as the named executive officers, and they include the company s chief executive officer and the four other most highly compensated executive officers of the company for the period June 29, 2002 through December 31, 2002.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation			
					Awards		Payouts	
Name and Principal Position	Year	Salary ($) (1)	Bonus ($) (2)	Other Annual Compen-sation ($)	Restricted Stock Award(s) ($)	Securities Underlying Options/ SARs (#) (4)	LTIP Payouts ($)	All Other Compen-sation ($) (5)
James V. Mazzo, President and Chief Executive Officer	2002	$ 225,000	$ 266,780	$ 301,220(3)		508,515		$ 55,824
Richard A. Meier, Corporate Vice President and Chief Financial Officer	2002	162,500	120,100			100,000		4,317
Holger Heidrich, Ph.D., Corporate Vice President and President, Europe, Africa, Asia Pacific Region(6)	2002	159,157	63,400			296,177		4,038
C. Russell Trenary, III, Corporate Vice President and President, Americas Region	2002	130,000	58,500			80,000		5,405
Aimee S. Weisner, Corporate Vice President, General Counsel and Secretary	2002	107,500	75,300		(7)	169,504		3,144

(1) The amounts shown include cash compensation earned and received by executive officers as well as amounts earned but deferred at the election of those officers.

(2) The amounts shown represent bonus performance awards which were paid in February 2003 under our Bonus Plan for services rendered during July December 2002.

(3) As a U.S. employee working abroad, Mr. Mazzo is entitled to certain payments in accordance with our expatriate policy. These amounts are paid to offset the costs of maintaining two households and the costs to live abroad that he incurs because of the assignment and include $163,155 for tax equalization, $61,652 for housing and $46,072 in educational costs for his children. Mr. Mazzo was assigned to the U.K. in 1998 to manage the Europe/Africa/Middle East Region of Allergan. Mr. Mazzo plans to relocate to the U.S. in mid-2003.

(4) In connection with our spin-off from Allergan, employees who transferred from Allergan and who held certain unvested Allergan stock options at the time of the spin-off were granted unvested AMO stock options under our 2002 Incentive Compensation Plan. Such converted options cover adjusted numbers of shares and have adjusted exercise prices that were calculated as required in accordance with generally accepted accounting principles to preserve for the respective holders the intrinsic value of the original Allegan stock options at the time of the spin-off. For Mr. Mazzo, the foregoing table includes

an aggregate of 268,515 such converted options; for Dr. Heidrich, 216,177 converted options; and for Ms. Weisner, 89,504 converted options.

(5) The total amounts shown in this column for the 2002 fiscal year consist of company contributions to our 401(k) Plan (or in the case of Dr. Heidrich, who is based in Germany, company contributions to a pension plan, which is comparable to a retirement savings plan), the cost of term life insurance and payment in lieu of vacation.

Name	Retirement	Insurance	Vacation
Mr. Mazzo	$ 0	$ 1,305	$ 54,519
Mr. Meier	3,447	870	
Dr. Heidrich	3,622	416	
Mr. Trenary	4,550	855	
Ms. Weisner	2,688	456	

Additional amounts, if any, contributed by the company to participants respective 401(k) accounts following completion of a fiscal year, which the company terms profit sharing contributions, are excluded from this table but will be included in future years Summary Compensation Tables. Such contributions, if any, are made in mid-February to participants who were employed by the company on the last day of the prior fiscal year.

(6) Dollar amounts shown for Dr. Heidrich were converted from Euros to Dollars using the conversion rate as of December 31, 2002. Dr. Heidrich participates in a pension plan, the terms of which are governed by German law. Under this plan, the company, through its German subsidiary, accrues benefits to be paid to Dr. Heidrich upon his retirement. The amount accrued is determined annually by German authorities. If Dr. Heidrich were to retire at age 65, assuming he remains an employee of the company through his retirement date, his estimated benefit under this pension plan would be $137,564 per year.

(7) As part of the spin-off transaction, Ms. Weisner received 71 shares of AMO restricted stock, which was paid as a dividend on a January 1999 Allergan restricted stock grant. The AMO restricted shares had a value of $781.00 on June 29, 2002, and had a value of $849.87 on December 31, 2002. These shares vested on January 25, 2003. No dividends were paid on these shares.

Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal 2002	Exercise or Base Price Per Share (1)	Expiration Date	Grant Date Present Value ($)(8)
James V. Mazzo	70,997 (1)(2)	1.38%	$ 5.7112	01-25-06	458,149
	105,586 (1)(3)	2.05%	8.9401	01-24-07	480,822
	91,932 (1)(4)	1.78%	13.7150	02-02-08	300,059
	240,000 (7)	4.65%	8.9900	07-29-12	920,704
Richard A. Meier	100,000 (7)	1.94%	8.9900	07-29-12	383,627
Holger Heidrich, Ph.D.	19,114 (1)(2)	0.37%	5.7112	01-25-09	123,344
	63,715 (1)(5)	1.24%	7.0347	12-10-09	368,834
	48,242 (1)(3)	0.94%	8.9401	01-24-10	219,686
	85,106 (1)(4)	1.65%	13.7150	02-02-11	277,780
	80,000 (7)	1.55%	8.9900	07-29-12	306,901
C. Russell Trenary, III	80,000 (7)	1.55%	8.9900	07-29-12	306,901
Aimee S. Weisner	7,585 (1)(2)	0.15%	5.7112	01-25-09	48,947
	42,477 (1)(6)	0.82%	7.0347	12-10-09	245,891
	12,136 (1)(3)	0.24%	8.9401	01-24-10	55,265
	27,306 (1)(4)	0.53%	13.7150	02-02-11	89,125
	80,000 (7)	1.55%	8.9900	07-29-12	306,901

(1) In connection with our spin-off from Allergan, employees who transferred from Allergan and who held certain unvested Allergan stock options at the time of the spin-off were granted unvested AMO stock options under our 2002 Incentive Compensation Plan. Such converted options cover adjusted numbers of shares and have adjusted exercise prices that were calculated in a manner required by generally accepted accounting principles in order to preserve for the respective holders the intrinsic value of the original Allegan stock options at the time of the spin-off. The original Allergan options had been granted under that company s 1989 Incentive Compensation Plan and had original exercise prices equal to the fair market value of Allergan s common stock on the date of grant. For Mr. Mazzo, the foregoing table includes an aggregate of 268,515 such converted options; for Dr. Heidrich, 216,177 converted options; and for Ms. Weisner, 89,504 converted options.

(2) Options vested in January 2003.

(3) One half of the options vested in January 2003; the remainder vest in January 2004.

(4) One third of the options vested in February 2003, another third vest in February 2004, with the remainder vesting in February 2005.

(5) 13,653 options vested in December 2002; the remainder vest in December 2003.

(6) 9,102 options vested in December 2002; the remainder vest in December 2003.

(7) Stock options granted to the named executives under the company s 2002 Incentive Compensation Plan, which vest ratably over four years from the date of grant (July 29, 2002), expire on the 10th anniversary of the date of grant, and have an exercise price equal to the fair market value of our common stock on the date of grant.

(8) Based on the Black-Scholes model of option valuation to determine grant date fair value, as prescribed under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation. The actual value, if any, an executive may realize will depend on the excess of the stock price over the exercise price on the date the option is exercised, so that there is no assurance the value realized by an executive will be at or near the value estimated by the Black-Scholes model. The following assumptions were used in the Black-Scholes model: market price of stock, $8.99-$12.00; exercise price of option, $5.71-$13.72; expected stock volatility, 42%; risk-free interest rate, 2.10% to 4.08%; expected life, one to five years; dividend yield, 0.0%.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table provides information regarding outstanding options to purchase our common stock held by the named executive officers at the end of 2002. None of the named executive officers exercised AMO options during 2002. No stock appreciation rights were held by the named executive officers at the end of such year.

	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options/SARs at Fiscal Year-End(1)	
Name	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
James V. Mazzo		508,515		$1,479,471
Richard A. Meier		100,000		$298,000
Holger Heidrich, Ph.D.	13,653	282,524	$67,382	$751,270
C. Russell Trenary, III		80,000		$238,400
Aimee S. Weisner	9,102	160,402	$44,921	$487,360

(1) Based on $11.97, which was the closing price of our common stock on the New York Stock Exchange on December 31, 2002.

Compensation Committee Interlocks and Insider Participation

No member of our Organization, Compensation and Corporate Governance Committee is a current or former officer or employee of AMO or any of our subsidiaries. None of our executive officers serve on the board of directors or compensation committee of any entity that has one or more executive officers serving as members of our board of directors or Organization, Compensation and Corporate Governance Committee.

Equity Compensation Plans Approved by Stockholders

All of our equity compensation plans were approved by Allergan, Inc., as our sole stockholder, prior to our spin-off from Allergan.

As set forth under Proposal 3 above, the purpose of submitting the 2002 Incentive Compensation Plan to our public stockholders is to allow awards granted under the plan to our executive officers to qualify as performance-based compensation under Section 162(m) of the Tax Code. This will allow us to preserve the tax-deductibility of awards without regard to the limitations of Section 162(m) of the Tax Code.

The following table sets forth, for each of our equity compensation plans, the number of outstanding option grants and the number of shares remaining available for issuance as of the end of fiscal 2002.

Equity Compensation Plan Information

Category of Plan	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	5,005,513(1)	$9.7866	2,281,722(2)
Equity Compensation Plans Not Approved by Security Holders	0		0
Total	5,005,513	$9.7866	2,281,722

(1) Includes 2,550,063 shares issued upon conversion of Allergan stock options as a consequence of our spin-off.

(2) Includes 287,235 shares currently authorized for issuance, in the aggregate, under our 2002 Employee Stock Purchase Plan and 2002 International Stock Purchase Plan. These plans contain evergreen features which provide that each year on October 1 (though October 1, 2011), the number of authorized shares (for both plans, on an aggregate basis) increases by the lesser of 290,000 shares or 1% of our shares of common stock outstanding. Also includes 150,000 shares authorized for issuance under our Irish Savings Related Share Option Scheme and 150,000 shares authorized for issuance under our AMO (Ireland) Share Participation Scheme. All of such shares have been registered with the SEC.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Employment Agreements

We entered into employment agreements with each of the named executive officers, effective June 29, 2002. Each has a term of three years and may be automatically extended for successive one-year terms unless either party to the agreement elects in writing not to extend the term. The agreements set forth the general principles of the executives compensation and benefits arrangements. Mr. Mazzo s agreement also provides for his service as a director of AMO.

Termination by Us Without Cause or by the Executive for Good Reason. In the event that the executive is terminated by us other than for cause, or if the executive terminates his or her employment for good reason, the executive will receive severance pay that includes:

- a prorated portion of the executive s targeted annual bonus;
- an amount representing the executive s unused accrued vacation time (at his or her base salary rate) through the date of termination;
- continued medical and other welfare plan coverage for the executive and his or her eligible dependents for twelve months;
- a severance payment calculated by multiplying the executive s annual compensation by two (three in the case of Mr. Mazzo). For the purposes of this severance payment calculation, the executive s annual compensation is defined as the sum of (i) the higher of the executive s then-current base salary or his or her highest annual salary within the five-year period ending at the time of his or her termination plus (ii) a management bonus increment, which is equal to the higher of 100% of his or her then-current annual target bonus rate or the average of the two highest of the last five bonuses paid by us to the executive.

The employment agreements define cause to include, among other things, the conviction of the executive of any felony, material misconduct, or refusal to comply with the written instructions of our board of directors. The employment agreements also define good reason to include any material change in the executive s duties or the material reduction or adverse modification of the executive s compensation.

Change of Control. In the event the executive s employment is terminated by us without cause, or by him or her for good reason, 120 days prior to or within two years after a change in control event occurs, the employment agreements provide that the executive will receive a severance payment equal to three times annual compensation using the same method of calculation described above. The agreements also provide that all of the executives stock options, incentive compensation awards and restricted stock that are outstanding at the time of the termination will immediately become fully exercisable, payable or free from restrictions, respectively. The applicable exercise period for any stock option or other award will continue for the length of the exercise period specified in the grant of the award as determined without regard to the executive s termination of employment. The executive will also be allowed to continue to participate for three years following his or her termination in all of our employee benefit plans that were available to him or her before termination.

Restrictive Covenants. The executives have agreed not to disclose our confidential information to any other person or entity for a period of five years or to solicit any of our employees for a period of two years.

Repatriation and Relocation Loan. We have agreed to repatriate Mr. Mazzo and his household from the United Kingdom. As part of his repatriation, we will pay the travel and moving costs associated with moving his household to California, as well as any temporary living expenses incurred while Mr. Mazzo establishes a permanent residence in California. To further assist in his repatriation, we agreed to pay Mr. Mazzo a tax-free allowance equal to one month s salary and to provide him a five-year, interest-free relocation loan of up to

$500,000. Such loan is evidenced by a promissory note dated July 3, 2002, which is secured by real property purchased by Mr. Mazzo. The principal amount of $500,000 is payable upon the earlier to occur of (a) 60 days following Mr. Mazzo s termination of employment; (b) the date of any sale or other transfer of the property; or (c) July 3, 2007. We made this loan to Mr. Mazzo before adoption of the Sarbanes-Oxley Act of 2002. As of December 31, 2002, the full amount of this loan was outstanding.

Excise Tax Gross-Up. In the event that any payment or benefits an executive receives pursuant to the employment agreements is deemed to constitute an excess parachute payment under Section 280G of the Internal Revenue Code, he or she is entitled to an excise tax gross-up payment to the full extent of his or her corresponding excise tax liability.

Allergan

Until June 29, 2002, we were a wholly-owned subsidiary of Allergan, Inc. David Pyott, our director, is the Chairman of the Board, President and Chief Executive Officer of Allergan. At the time of our spin-off, we entered into a Transitional Services Agreement and a Manufacturing Agreement, each of which expires in June 2005. During the last half of 2002, we paid Allergan approximately $6.6 million for transitional services, and Allergan paid us approximately $550,000 for transitional services. During this time period we also bought products from Allergan under the Manufacturing Agreement in an aggregate amount of approximately $31.8 million.

At the time of our spin-off, we also entered into a Tax Sharing Agreement with Allergan. One of Allergan s obligations to us under the Tax Sharing Agreement was to indemnify us for any taxes (and associated penalties and interest) we incurred as a result of the restructuring activities undertaken to effectuate the spin-off. As a result, Allergan indemnified us for approximately $5.3 million in aggregate in 2002.

REPORT OF THE AUDIT AND FINANCE COMMITTEE

The Audit and Finance Committee (the AFC) of the board of directors of Advanced Medical Optics, Inc. issues the following report for inclusion in the company s proxy statement in connection with the company s annual meeting scheduled for April 30, 2003.

1. The AFC has reviewed and discussed the audited financial statements for the year ending December 31, 2002, with management of the company and with the company s independent auditors, KPMG LLP.

2. The AFC has discussed those matters required by Statement on Auditing Standards No. 61 with KPMG LLP.

3. The AFC has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, confirming KPMG s independence, and has discussed with the independent auditors the auditors independence from the company and its management (including whether the independent auditors provision of information technology services, if any, and other non-audit services to the company is compatible with the auditors independence).

4. After the discussions referenced in paragraphs 1 through 3 above, the AFC recommended to the board of directors that the audited financial statements for the fiscal year ending December 31, 2002 be included or incorporated by reference in the Annual Report on Form 10-K for that fiscal year for filing with the Securities and Exchange Commission.

Audit and Finance Committee

James O. Rollans, Chairman

William R. Grant

William J. Link, Ph.D.

Michael A. Mussallem

INDEPENDENT AUDITORS

Audit Fees

KPMG LLP fees for its annual audit and review of financial statements including the company s Form 10-Q s for 2002 were $902,000.

Financial Information Systems and Implementation Fees

KPMG LLP was not engaged during 2002 to perform, and thus no fees were paid for, any services related to financial information system design or implementation.

All Other Fees

KPMG LLP fees for services unrelated to the annual audit and quarterly reviews for 2002 were $345,300. These services consist principally of issuance of letters to underwriters, statutory audits of foreign subsidiaries, and tax compliance and other accounting related services.

We have not formally selected our auditors for 2003 as we are currently in the process of formally retaining our auditors.

Representatives of KPMG LLP are expected to be present at the annual meeting, will have an opportunity to make a statement, and will be available to answer questions of stockholders.

ADDITIONAL INFORMATION

Other Business

We do not expect any business to come up for stockholder vote at the meeting other than the items described in this booklet. If other business is properly raised, your proxy card authorizes the proxy holders to vote as they deem appropriate. The company s Bylaws contain provisions regarding matters which may properly be brought before the stockholders at an annual meeting. The most recently revised Bylaws are attached as Exhibit 3.2 to the company s Form 10 filed with the Securities and Exchange Commission.

Stockholder Proposals for Next Year

In order to be eligible for inclusion in the company s proxy materials for next year s annual meeting of stockholders, any stockholder proposal (including the submission of nominees for directors) must be received by the company to the attention of the Secretary at its principal executive offices not later than the close of business on November 26, 2003. Stockholder proposals and nominations received by the company between December 31, 2003 and January 30, 2004 may also be considered at next year s annual meeting of stockholders but may not be included in the proxy materials for next year s annual meeting of stockholders.

How We Solicit Proxies

Advanced Medical Optics pays the costs of soliciting proxies. We are paying Mellon Investor Services a fee of $8,000 plus expenses to help with the solicitation. In addition to this mailing, the company may solicit proxies personally, electronically or by telephone. We also reimburse brokers and other nominees for their expenses in sending these materials to you and getting your voting instructions.

People Needing Special Assistance

If you plan to attend the annual meeting, we can provide reasonable assistance to help you participate in the meeting if you let us know in advance. Please call or write our Investor Relations department at least two weeks before the meeting at the number or address under Questions? below.

Annual Report

The summary Annual Report to Stockholders for the year ended December 31, 2002 accompanies the proxy material being mailed to all stockholders. The Annual Report is not a part of the proxy solicitation material. The company will provide, without charge, a copy of its most recent Annual Report on Form 10-K upon the receipt of a written request by any stockholder.

Questions?

If you have questions or need more information about the annual meeting, write to the

Investor Relations Department

Advanced Medical Optics, Inc.

1700 E. St. Andrew Place

Santa Ana, California 92705

or call us at (714) 247-8200.

For additional information about the company, we invite you to visit Advanced Medical Optics, Inc. s Internet site at www.amo-inc.com. Internet site materials are for your general information and are not part of this proxy solicitation. According to rules of the Securities and Exchange Commission (SEC), the information presented in this proxy statement under the captions Report of the Organization, Compensation and Corporate Governance Committee, Report of the Audit and Finance Committee and Comparison of Cumulative Total Return shall not be deemed to be soliciting material or to be filed with the SEC under the Securities Act of 1933 or the Securities Exchange Act of 1934, and nothing contained in any previous filings made by the company under the aforementioned Acts shall be interpreted as incorporating by reference the information presented under the specified captions. YOUR VOTE IS VERY IMPORTANT! Please vote by calling the toll-free number set forth on your proxy card or by signing and promptly returning your proxy card in the enclosed envelope.

EXHIBIT A

ADVANCED MEDICAL OPTICS, INC.

FINANCIAL INFORMATION

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following discussion and analysis presents the factors that had a material effect on AMO s cash flows and results of operations during the three years ended December 31, 2002, and the Company s financial position at that date. This discussion and analysis should be read in conjunction with the historical consolidated financial statements of AMO and related notes thereto included elsewhere in this Form 10-K.

Overview

AMO is a global leader in the development, manufacture and marketing of medical devices for the eye and contact lens care products. Our products in the ophthalmic surgical market include intraocular lenses, phacoemulsification systems, viscoelastics and surgical packs used in cataract surgery, and microkeratomes used in refractive surgery. Our eye care products include 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.

We have operations in approximately 20 countries and sell our products in approximately 60 countries. As part of Allergan, we had organized our operations into four regions: North America, Latin America, Asia Pacific and Europe. Operations for the Europe Region included sales to customers in Africa and the Middle East, and operations in the Asia Pacific Region included sales to customers in Australia and New Zealand. Since the spin-off, we have organized our operations into three regions:

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

Separation from Allergan

Allergan spun-off its existing optical medical device business by contributing all of the assets related to the two business lines that comprise the optical medical device business to us and distributing all of our outstanding shares of stock to its stockholders. We had no material assets, liabilities or activities as a separate corporate entity until Allergan s contribution to us of the optical medical device business. The contribution of assets and distribution to Allergan stockholders was completed on June 29, 2002. As a result of the spin-off, we are an independent public company and, Allergan no longer maintains any stock ownership in us.

Allergan did not account for our business on the basis of separate legal entities, subsidiaries, divisions or segments. The accompanying consolidated financial statements through June 28, 2002 include those assets, liabilities, revenues and expenses directly attributable to our operations and allocations of certain Allergan corporate assets, liabilities and expenses. These amounts have been allocated on a basis that was considered by Allergan management to reflect most fairly or reasonably the utilization of the services provided to us or the benefit obtained by us. All material intercompany balances have been eliminated. The financial information included herein does not necessarily reflect what the financial position and results of our operations would have been had we operated as a stand-alone public entity during all pre-spinoff periods presented, and may not be indicative of our future operations or financial position.

As part of Allergan, we historically participated in various Allergan administered functions including shared services surrounding selling, general and administrative expenses, retirement and other post-retirement benefit plans, income taxes and cash management. Our allocated portion of the expenses for these services are included in selling, general and administrative expenses in our consolidated statements of earnings. For the years ended December 31, 2002 (through June 28, 2002), 2001 and 2000, these allocated expenses were $23.2 million, $34.0 million, and $40.8 million, respectively.

Our income historically has been included in consolidated income tax returns filed by Allergan, and most of the related income taxes have been paid by Allergan. Allergan has managed its tax position for the benefit of its entire portfolio of businesses. Allergan s tax methodologies and elections are not necessarily reflective of the tax methodologies and elections that we would have followed or will follow as a stand-alone company. Our income tax expense has been recorded as if we filed tax returns separate from Allergan.

Cash and equivalents consist of cash in banks, money market mutual funds and repurchase agreements with financial institutions with original maturities of 90 days or less. Prior to the spin-off, we had participated in a centralized cash management program administered by Allergan. Cash and equivalents at December 31, 2001 include only those amounts that were to be considered part of our operations upon spin-off.

Prior to the spin-off, we entered into several agreements with Allergan in connection with, among other things, transitional services, employee matters, manufacturing and tax sharing.

The transitional services agreement sets forth charges generally intended to allow Allergan to fully recover the allocated costs of providing the services, plus all out-of-pocket costs and expenses, except that we pay to Allergan a commission related to our products that are sold by them during the transition period. We recover costs from Allergan in a similar manner for services provided by us.

Under the manufacturing agreement, Allergan manufactures certain of our eye care products and *VITRAX*® viscoelastics for a period of up to three years from the date of the spin-off. We purchase these products from Allergan at a price equal to Allergan s fully allocated costs plus 10%. During 2002 (subsequent to the spin-off), we purchased $31.8 million of product from Allergan. We are currently pursuing alternative manufacturing sources. If we are unable to either build or obtain regulatory approvals for new facilities or locate and obtain regulatory approvals for third party manufacturers to produce our products in a timely fashion, our business may be materially harmed.

The tax sharing agreement governs Allergan s and our respective rights, responsibilities and obligations with respect to taxes for any tax period ending before, on or after the spin-off. Generally, Allergan is liable for all pre-spin-off taxes except that we will indemnify Allergan for all pre-spin-off taxes attributable to our business for the current taxable year. In addition, the tax sharing agreement provides that Allergan is liable for taxes that are incurred as a result of restructuring activities undertaken to effectuate the spin-off.

We and Allergan have made representations to each other and to the Internal Revenue Service in connection with the private letter ruling that Allergan has received regarding the tax-free nature of the spin-off of our common stock by Allergan to its stockholders. If either we or Allergan breach our representations to each other or to the Internal Revenue Service, or if we or Allergan take or fail to take, as the case may be, actions that result in the spin-off failing to meet the requirements of a tax-free spin-off pursuant to Section 355 of the Internal Revenue Code, the party in breach will indemnify the other party for any and all resulting taxes.

Critical Accounting Policies

Revenue and Accounts Receivable

We recognize revenue from product sales when title and risk of loss transfer to the customer, with the exception of intraocular lenses, which are generally distributed on a consignment basis and recognized as revenue upon implantation in a patient. We generally permit returns of product from a customer if the product is returned in a timely manner, in good condition, and through the normal channels of distribution. Return policies in certain international markets can be more stringent and are based on the terms of contractual agreements with customers. Allowances for returns are provided for based upon an analysis of our historical patterns of returns matched against the sales from which they originated. Historically, product returns have been within the amounts reserved.

The allowance for doubtful accounts is determined by analyzing specific customer accounts and assessing the risk of uncollectibility based on insolvency, disputes or other collection issues. In addition, we routinely analyze the different receivable aging categories and establish reserves based on the length of time receivables are past due.

Inventories

Inventories are valued at the lower of first-in, first-out cost or market. On a regular basis, we evaluate inventory balances for excess quantities and obsolescence by analyzing estimated demand, inventory on hand, sales levels and other information. Based on these evaluations, inventory balances will be reduced, if necessary.

Deferred Taxes

We account for income taxes using the asset and liability method, which recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We regularly review historical and anticipated future pre-tax results of operations to determine whether we will be able to realize the benefit of net deferred tax assets.

Comparing Fiscal Years Ended December 31, 2002, 2001 and 2000

Net sales. The following table sets forth, for the periods indicated, net sales by major product line.

	Year Ended December 31,		
	2002	**2001**	**2000**
		(in thousands)	
Ophthalmic surgical	$ 270,395	$ 253,143	$ 248,773
Eye care	267,692	289,952	321,800
Total net sales	$ 538,087	$ 543,095	$ 570,573
U.S.	28.1%	30.8%	31.3%
International (excluding U.S.)	71.9%	69.2%	68.7%

Net sales for 2002 decreased by $5.0 million or 0.9%, to $538.1 million in 2002 from $543.1 million in 2001. The decrease in net sales in 2002 compared to 2001 was the result of a decrease in sales of our private-label eye care products partially offset by an increase in sales of our ophthalmic surgical products. Foreign currency fluctuations in 2002 increased sales by $5.2 million, or 0.9%, as compared to average rates in effect in 2001.

Global sales of our ophthalmic surgical products increased by $17.3 million, or 6.8%, from 2001 to 2002. Sales of our ophthalmic surgical products in the United States increased $1.2 million, or 1.2%, between 2001 and 2002, primarily due to growing acceptance of the *SOVEREIGN*® with *WHITESTAR* technology, our technologically advanced phacoemulsification system, and the higher growth associated with *SENSAR*® acrylic intraocular lens. International sales of our ophthalmic surgical products increased by $16.1 million, or 10.6%, between 2001 and 2002 primarily due to sales increases in phacoemulsification equipment and the *SENSAR*® acrylic intraocular lens and favorable foreign currency changes, which were partially offset by a sales decrease in silicone intraocular lenses. At constant currency rates, international ophthalmic surgical sales increased by $12.9 million, or 8.6%, between 2001 and 2002. We believe that global sales of ophthalmic surgical products will continue to grow due to increased sales of our *SOVEREIGN*® with *WHITESTAR* phacoemulsification systems and the *SENSAR*® and the *CLARIFLEX*® intraocular lenses, both with the *OPTIEDGE* design. Additionally, the two new *UNFOLDER*® insertion devices launched in late 2002 should favorably impact sales of our foldable acrylic and silicone lenses.

Global sales of our eye care products decreased by $22.3 million, or 7.7%, from 2001 to 2002. Sales of our eye care products in the United States decreased $17.2 million, or 26.7%, between 2001 and 2002, primarily due to management s decision to exit the lower-margin sales of private-label eye care products. International sales of our eye care products decreased by $5.1 million, or 2.2%, between 2001 and 2002 primarily due to the decrease in private-label sales partially offset by an increase in sales of our *COMPLETE*® branded products as compared to 2001. At constant currency rates, international eye care sales decreased by $7.1 million, or 3.1%, between 2001 and 2002. In the future, we expect the impact of reduced private-label product sales will be offset by continued growth in sales of our *COMPLETE*® branded products.

Net sales for 2001 decreased by $27.5 million, or 4.8%, to $543.1 million in 2001 from $570.6 million in 2000. At constant currency rates, sales increased by $0.7 million in 2001 compared to 2000. At constant currency rates, the increase in net sales in 2001 compared to 2000 was the result of an increase in sales of our ophthalmic surgical products, offset by a decrease in sales of our eye care products. Foreign currency fluctuations in 2001 decreased sales by $28.2 million, or 4.9%, as compared to average rates in effect in 2000.

Global sales of our ophthalmic surgical products increased by $4.4 million, or 1.8%, from 2000 to 2001. In the United States, sales of our ophthalmic surgical products decreased $1.6 million, or 1.6%, while internationally, sales of our ophthalmic surgical products increased $6.0 million or 4.2% over the same period. At constant currency rates, international sales of our ophthalmic surgical products increased $16.9 million, or 12.0%. This increase was primarily attributable to sales increases in the *SENSAR*® acrylic intraocular lens and *AMADEUS* microkeratome, offset in part by sales decreases in PMMA intraocular lenses, silicone intraocular lenses and phacoemulsification equipment. International sales of our ophthalmic surgical products in 2001 were negatively impacted primarily by the weakening of the Japanese yen and the euro versus the dollar, representing an $10.9 million, or 7.6%, unfavorable currency impact.

Global sales of our eye care products decreased by $31.8 million, or 9.9%, from 2000 to 2001. Sales of our eye care products in the United States decreased $9.8 million, or 13.3%, between 2000 and 2001, primarily due to a decrease in sales of private-label multi-purpose systems, peroxide-based disinfection systems, and ancillary products. International sales of our eye care products decreased $22.0 million, or 8.9%, between 2000 and 2001 primarily as a result of the weakening Japanese yen and euro versus the dollar, which represented $17.3 million of the decrease in international sales. At constant currency rates, international eye care sales decreased $4.7 million, or 1.9%, primarily attributable to the decrease in sales of peroxide-based disinfection and ancillary products partially offset by an increase in sales of our *COMPLETE*® branded products.

The following table sets forth, for the periods indicated, net sales by geographic region:

	Year Ended December 31,		
	2002	**2001**	**2000**
		(in thousands)	
United States	$ 151,283	$ 167,280	$ 178,764
Europe/Africa/Asia Pacific	217,779	208,370	220,713
Japan	145,135	137,287	138,053
Other	23,890	30,158	33,043
Total net sales	$ 538,087	$ 543,095	$ 570,573

We organize our operations into three regions: the Americas, which is comprised of North and South America, Europe/Africa/Asia Pacific and Japan.

The U.S. information is presented separately as it is our headquarters country, and U.S. sales represented 28.1%, 30.8% and 31.3% of total net sales in 2002, 2001, and 2000, respectively. Additionally, sales in Japan represented 27.0%, 25.3%, and 24.2% of total net sales in 2002, 2001 and 2000, respectively. No other country, or any single customer, generated over 10% of total net sales in any of these years.

Net sales in the United States decreased $16.0 million in 2002 as compared to 2001. Net sales in Europe/Africa/Asia Pacific increased $9.4 million in 2002 as compared to 2001 including the favorable impact of $10.3 million primarily from the strengthening of the euro versus the dollar. Net sales in Japan for 2002 increased $7.8 million including the negative impact of $3.5 million from the weakening of the Japanese yen versus the dollar. Net sales in the Other geographic segment for 2002 decreased by $6.3 million as compared to 2001 primarily due to reduced sales in Latin America.

Net sales in the United States decreased $11.5 million in 2001 as compared to 2000. Net sales in Europe/Africa/Asia Pacific decreased $12.3 million including the negative impact of $7.8 million primarily from the weakening of the euro versus the dollar in 2001 as compared to 2000. Net sales in Japan decreased $0.8 million including the negative impact of $17.8 million from the weakening of the Japanese yen versus the dollar in 2001 as compared to 2000. Net sales in the Other geographic segment for 2001 decreased by $2.9 million as compared to 2000 primarily due to a $2.6 million decrease resulting from the weakening of the Brazilian real versus the dollar.

For additional information relating to our geographic operating segments, including operating income or loss and total assets, see Note 12 of Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2002	**2001**	**2000**
Net sales	100.0%	100.0%	100.0%
Cost of sales	38.0	39.1	40.6
Gross margin	62.0	60.9	59.4
Other operating costs and expenses:			
Selling, general and administrative	43.8	41.0	42.2
Research and development	5.6	5.3	5.2
Restructuring charge reversal			(0.4)
Operating income	12.6	14.6	12.4
Loss on investments, net	(0.7)	(0.1)	
Unrealized (loss) gain on derivative instruments	(0.6)	0.2	
Other non-operating expense, net	(3.0)	(0.7)	(0.4)
Earnings before income taxes	8.3%	14.0%	12.0%
Net earnings	4.8%	10.1%	8.6%

Gross margin. Our gross margin increased as a percent of net sales by 1.1 percentage points from 60.9% in 2001 to 62.0% in 2002 and by 1.5 percentage points from 59.4% in 2000 to 60.9% in 2001. Our gross margin in 2002 was negatively impacted by the June 2002 write-off of $2.6 million of inventory deemed unusable due to our spin-off from Allergan. The increase in gross margin as a percent of net sales in 2002 as compared to 2001 was primarily the result of decreased sales of low margin private-label products and a change in product sales mix to higher margin surgical products, including the SENSAR® and CLARIFLEX® intraocular lenses. In 2003, we expect our eye care product gross margin percentage to be slightly reduced by the full year impact of our manufacturing agreement with Allergan, partially offset by improved ophthalmic surgical product gross margins. The increase in gross margin as a percent of net sales in 2001 as compared to 2000 was primarily the result of higher gross margins achieved on sales of eye care products, partially offset by a change in product sales mix to lower margin surgical products.

Selling, general and administrative. Selling, general and administrative expenses increased as a percent of net sales by 2.8 percentage points to 43.8% in 2002 from 41.0% in 2001. The percentage increase in 2002 was primarily the result of increased general and administrative expenses incurred in preparation for the spin-off and as we began operations as an independent public company partially offset by lower selling expenses and a reduction in goodwill amortization of $9.0 million. Beginning in 2002, we no longer amortize goodwill in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. Selling, general and administrative expenses decreased as a percent of net sales by 1.2 percentage points to 41.0% in 2001 from 42.2% in 2000. This decrease was the result of a dollar and percentage of sales decrease in promotion related expenses including samples and in general and administrative expenses.

Research and development. Research and development expenses increased as a percent of net sales by 0.3 percentage points to 5.6% in 2002 from 5.3% in 2001. Research and development spending increased in 2002 as a result of an increase in spending for research efforts in the ophthalmic surgical business, partially offset by a decrease in research and development spending for the eye care business. Our increased investment in the ophthalmic surgical business resulted in the successful launch of two new intraocular lens insertion devices, the *SILVER Z* and the *EMERALD T*, and the successful European launch of the *VERISYSE* phakic intraocular lens for the correction of hyperopia, myopia and astigmatism. We also expect to launch our new *SOVEREIGN® COMPACT* phacoemulsification system in 2003. Research and development expenses as a percent of net sales were comparable in 2001 and 2000.

Non-operating expense. Non-operating expense was $23.3 million, $3.2 million and $2.3 million in 2002, 2001 and 2000, respectively. We recorded an unrealized loss on derivative instruments of $3.2 million in 2002 compared to an unrealized gain of $1.3 million in 2001. We recorded as unrealized loss (gain) on derivative instruments the mark to market adjustments on the outstanding foreign currency options which we entered into or were allocated as part of Allergan s overall risk management strategy to reduce the volatility of expected earnings in currencies other than U.S. dollar. 2002 includes a $3.9 million charge for the permanent impairment of two equity investments and early debt extinguishment costs of $3.5 million associated with the prepayment of debt in Japan in June 2002. As of December 31, 2002, we have no other equity investments. Interest expense increased $10.5 million in 2002 compared with 2001 primarily due to the $300.0 million of debt incurred just prior to the spin-off.

Income taxes. The effective tax rate in 2002 was 41.9%, up from the 27.1% effective tax rate in 2001. The increase in 2002 was primarily attributable to the provision of U.S. federal and state income taxes and foreign withholding taxes on the portion of undistributed earnings of non-U.S. subsidiaries expected to be remitted, which was not provided for in the prior year. Effective June 29, 2002, income taxes are provided on taxable income at the statutory rates applicable to such income.

In accordance with Emerging Issues Task Force Issue No. 94-10, Accounting by a Company for the Income Tax Effects of Transactions among or with Its Shareholders under FASB Statement No. 109 , we established deferred tax assets of approximately $17.5 million through a credit to equity for all differences resulting from the spin-off in the financial reporting and tax bases of certain assets and liabilities. These differences occurred in jurisdictions where the transfer of assets and liabilities to us in the spin-off was deemed to be a taxable transaction. In such situations, the tax bases were adjusted to reflect the fair market value of the assets and liabilities on the spin-off date whereas the financial reporting bases were unchanged.

Our effective tax rate in 2001 was 27.1%, down from the 27.9% effective tax rate in 2000. The decrease in 2001 was primarily attributable to the changes in the valuation allowance on deferred tax assets that were realized in 2001, partially offset by a shift in the mix of earnings from lower tax rate jurisdictions in Ireland and Puerto Rico to higher tax rate jurisdictions, primarily in the United States and Japan.

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As a result of an improvement in profitability in Japan in 2001, we were able to utilize $2.7 million of our net operating loss carryforward benefit to offset taxes currently payable and realize the benefits associated with $6.3 million of deferred tax assets in Japan, for which we previously had established a valuation allowance. Previously, management did not believe that realization of these benefits was more likely than not, and had provided a $9.0 million valuation allowance for these deferred tax assets in prior years. In 2001, we determined, based solely on our judgment, that realization of the deferred tax assets of $6.3 million had become more likely than not and, accordingly, we reversed the valuation allowance previously established. As a result of the realization of these deferred tax assets, our valuation allowance on deferred tax assets and our income tax expense were reduced, and our net earnings were increased, by approximately $9.0 million in 2001. We do not anticipate that our future provision for income taxes will include tax benefits similar to those recognized in 2001.

We believe our future effective income tax rate will remain higher than our 2001 and 2000 effective tax rates due to our mix of domestic and international taxable income or loss and the various tax and treasury strategies that we implement, including a determination of our policy regarding the repatriation of future accumulated foreign earnings. We expect our effective tax rate to be between 38% and 40% in 2003.

Net earnings. Net earnings were $25.9 million in 2002 compared to $55.0 million in 2001. The $29.1 million decrease in net earnings in 2002 is primarily the result of the $11.3 million decrease in operating income and an increase in non-operating expense of $20.1 million, partially offset by a decrease in income tax expense of $1.9 million.

Net earnings were $55.0 million in 2001 compared to $49.2 million in 2000. The $5.8 million increase in 2001 net earnings is primarily the result of the $8.7 million increase in operating income, and the $1.3 million unrealized gain on derivative instruments, substantially offset by the increase in all other non-operating expenses of $2.2 million, the $1.6 million increase in income tax expense and the $0.4 million after-tax effect of the adoption of Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities.

Seasonality. Traditionally, we have realized a seasonal trend in our sales and net earnings, with the smallest portion of our ophthalmic surgical sales being realized in the first quarter and with sales gradually increasing from the second to fourth quarter. This seasonality is primarily attributable to higher sales of our ophthalmic surgical products in the fourth quarter. We believe sales of our ophthalmic surgical products are comparatively higher in the fourth quarter because hospitals, ambulatory surgical centers and other customers increase spending as they reach their year-end and are able to spend the remainder of their annual budgeted amounts.

Liquidity and Capital Resources

Management assesses our liquidity by our ability to generate cash to fund operations. Significant factors in the management of liquidity are: funds generated by operations; levels of accounts receivable, inventories, accounts payable and capital expenditures; adequate lines of credit; and financial flexibility to attract long-term capital on satisfactory terms.

Historically, we have generated cash from operations in excess of working capital requirements, and we expect to do so in the future. Net cash provided by operating activities in 2002 was $116.6 million compared to $75.8 million in 2001 and $93.6 million in 2000. Operating cash flow increased in 2002 compared to 2001 primarily as a result of improved management of inventory and an increase in accounts payable and accrued expenses and other liabilities, partially offset by lower net earnings and an increase in other assets. Operating cash flow decreased in 2001 compared to 2000 primarily as a result of an increase in other assets and a reduction in accounts payable, partially offset by the increase in net earnings and improved management of trade receivables.

Net cash used in investing activities was $22.1 million, $14.5 million and $11.0 million in 2002, 2001, and 2000, respectively. Expenditures for property, plant and equipment totaled $16.7 million, $5.9 million and $6.6 million in 2002, 2001 and 2000, respectively. The 2002 expenditures are primarily comprised of improvements to our recently leased headquarters and also include expansion of manufacturing facilities and a variety of other projects designed to improve productivity. The 2001 and 2000 expenditures included expansion of manufacturing facilities and a variety of other projects designed to improve productivity. We expect to invest approximately $16.0 million to $18.0 million in property, plant and equipment in 2003. Expenditures for demonstration (demo) and bundled equipment, primarily phacoemulsification and microkeratome surgical equipment, were $5.0 million, $6.4 million and $4.1 million in 2002, 2001 and 2000, respectively. We maintain demo and bundled equipment to facilitate future sales of similar equipment and related products to our customers. We expect to invest approximately $3.0 million to $5.0 million in demo and bundled equipment in 2003. Expenditures for capitalized internal-use software were $0.9 million, $3.1 million and $0.5 million 2002, 2001 and 2000, respectively. We capitalize internal-use software costs after technical feasibility has been established. We expect to invest approximately $1.0 million to $3.0 million in capitalized software in 2003.

Net cash used in financing activities was $21.9 million in 2002 which was comprised of $305.6 million of long-term debt borrowings offset by long-term debt repayments of $136.4 million, $5.6 million of net proceeds from the settlement of an interest rate swap, and $196.7 million of net distributions to Allergan. Net transfers to Allergan ceased as of June 28, 2002 as a result of the spin-off. In January 2003, we repaid an additional $25.0 million of our term loan.

Net cash used in financing activities was $66.2 million in 2001, composed primarily of $58.6 million in distributions to Allergan, net of advances, and $7.6 million in net repayments of debt. Net cash used in financing activities was $71.7 million in 2000, composed primarily of $76.7 million in distributions to Allergan, net of advances, partially offset by $5.0 million in net debt borrowings.

As of the spin-off date, we incurred $300.0 million of debt with an estimated weighted average interest rate of 6.89%, including the benefit of interest rate swaps. We used approximately $258.1 million of these credit facilities to repay indebtedness borrowed from Allergan to purchase various assets from Allergan, make a distribution to Allergan in exchange for various assets contributed to us, and repay a portion of Allergan s debt assumed by us in connection with the spin-off. As of December 31, 2002, we had repaid $25.0 million of this debt. We also entered into a new $35.0 million revolving credit facility to fund future capital expenditures and working capital, if needed. At December 31, 2002, approximately $17.9 million of the senior revolving credit facility has been reserved to support letters of credit issued on our behalf with the remainder available for future borrowings.

A majority of cash generated from operations prior to June 28, 2002 was transferred to Allergan. The net effect of these cash transfers has been reflected in the Allergan, Inc. net investment account in the equity section of our consolidated balance sheets.

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

We believe that the net cash provided by our operating activities, supplemented as necessary with borrowings available under our revolving credit facility and existing cash and equivalents, will provide sufficient resources to meet our working capital requirements, debt service and other cash needs over the next year.

We are dependent, in part, upon the reimbursement policies of government and private health insurance companies. Government and private sector initiatives to limit the growth of health care costs, including price regulation and competitive pricing, are continuing in many countries where we do business. As a result of these changes, the marketplace has placed increased emphasis on the delivery of more cost-effective medical therapies.

While we have been unaware of significant price resistance resulting from the trend toward cost containment, changes in reimbursement policies and other reimbursement methodologies and payment levels could have an adverse effect on our pricing flexibility.

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

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

Foreign currency fluctuations. Approximately 72% and 69% of our revenues in the years ended December 31, 2002 and 2001, respectively, were derived from operations outside the United States, and a significant portion of our cost structure is denominated in currencies other than the U.S. dollar. Therefore, we are subject to fluctuations in sales and earnings reported in U.S. dollars as a result of changing currency exchange rates.

The impact of foreign currency fluctuations on sales was a $5.2 million increase in 2002, a $28.2 million decrease in 2001, and an $18.0 million decrease in 2000. The sales increase in 2002 was due primarily to a strengthening of the euro versus the dollar. The sales decrease in 2001 was due primarily to a weakening of the Japanese yen and European currencies. The 2000 sales decrease included decreases related to European currencies partially offset by an increase related to the Japanese yen.

Contractual obligations. The following represents a list of our material contractual obligations and commitments as of December 31, 2002:

	Payments Due by Year						
	2003	2004	2005	2006	2007	Thereafter	Total
	(in millions)						
Long-term debt	$ 0.8	0.8	0.8	0.8	36.0	236.0	$ 275.0
Lease obligations	$ 12.8	8.8	5.2	4.1	3.9	28.4	$ 63.2
IT services	$ 5.4	5.4	5.4	5.2	4.7		$ 26.1

Quantitative and Qualitative Market Risk Factors

We routinely monitor our risks associated with fluctuations in currency exchange rates and interest rates. We address these risks through controlled risk management that may include the use of derivative financial instruments to economically hedge or reduce these exposures. We do not expect to enter into financial instruments for trading or speculative purposes. For all periods presented through June 28, 2002, we were considered in Allergan s overall risk management strategy. As part of this strategy, Allergan managed its risks based on management s judgment of the appropriate trade-off between risk, opportunity and costs. With respect to our risks, Allergan primarily utilized foreign currency option and forward contracts to economically hedge or reduce these exposures.

Given the inherent limitations of forecasting and the anticipatory nature of the exposures intended to be hedged, there can be no assurance that such programs will offset more than a portion of the adverse financial impact resulting from unfavorable movements in either interest or foreign exchange rates. In addition, the timing of the accounting for recognition of gains and losses related to mark-to-market instruments for any given period may not coincide with the timing of gains and losses related to the underlying economic exposures and, therefore, may adversely affect our operating results and financial position.

To ensure the adequacy and effectiveness of our interest rate and foreign exchange hedge positions, we continually monitor, from an accounting and economic perspective, our interest rate swap positions and foreign exchange forward and option positions, when applicable, both on a stand-alone basis and in conjunction with our underlying interest rate and foreign currency exposures.

Interest rate risk. Our $275.0 million of debt is comprised solely of domestic borrowings, a portion of which incurs interest at a variable interest rate. Thus, our interest expense will fluctuate with rate changes in the U.S.

We have entered into various interest rate swap agreements which effectively convert our interest rate on $150.0 million of the senior subordinated notes from a fixed rate to a floating rate and convert the interest rate on $50.0 million of our $75.0 million term credit facility borrowings from a floating rate to a fixed rate. Changes in fair value of interest rate swap agreements qualifying as cash flow hedges are recorded in other comprehensive income to the extent such changes are effective and as long as the cash flow hedge requirements are met.

At December 31, 2002, the fair value of $0.4 million of the interest rate swap qualifying as a fair value hedge is included in Other assets in the accompanying consolidated balance sheet. An offsetting $0.4 million credit is included in long-term term debt as a fair value adjustment. The fair value of $(2.0) million of the interest rate swap qualifying as a cash flow hedge is recorded in Other liabilities in the accompanying consolidated balance sheet.

On October 29, 2002, we realized the value of certain interest rate swaps qualifying as fair value hedges. We received approximately $10.4 million, of which approximately $4.8 million represented the net settlement of the accrued but unpaid amount between us and the banks. The remaining amount of approximately $5.6 million was recorded as an adjustment to the carrying amount of the senior subordinated notes as a premium and is amortized over the remaining life of the notes. We used $10 million of the cash proceeds to repay a portion of the term loan.

Concurrently, we entered into a new interest rate swap agreement effective October 31, 2002 which converts the interest rate on $150.0 million of the senior subordinated notes from a fixed to a floating rate.

If interest rates were to increase or decrease by 0.125% for the year, annual interest expense would increase or decrease by approximately $0.2 million.

The tables below present information about our cash equivalents, debt obligations and interest rate derivatives for the years ended December 31, 2002 and 2001:

December 31, 2002

	Maturing in							Fair Market Value
	2003	2004	2005	2007	2008	Thereafter	Total	
	(in thousands, except interest rates)							
LIABILITIES								
Debt Obligations:								
Fixed Rate	$	$	$	$	$	$ 200,000	$ 200,000	$ 205,606
Weighted Average Interest Rate						9.25%	9.25%	
Variable Rate	750	750	750	750	36,000	36,000	75,000	$ 75,000
Weighted Average Interest Rate	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%	
Total Debt Obligations	$ 750	$ 750	$ 750	$ 750	$ 36,000	$ 236,000	$ 275,000	$ 280,606
Weighted Average Interest Rate	4.90%	4.90%	4.90%	4.90%	4.90%	8.59%	8.06%	
INTEREST RATE DERIVATIVES								
Interest Rate Swaps:								
Variable to Fixed	$	$	$ 50,000	$	$	$	$ 50,000	$ (1,986)
Average Pay Rate			3.74%				3.74%	
Average Receive Rate			1.76%				1.76%	
Fixed to Variable	$	$	$	$	$	$ 150,000	$ 150,000	$ 418
Average Pay Rate						6.50%	6.50%	
Average Receive Rate						9.25%	9.25%	

December 31, 2001

	Maturing in							Fair Market Value
	2002	2003	2004	2005	2006	Thereafter	Total	
	(in thousands, except interest rates)							
Repurchase Agreements	$ 6,725	$	$	$	$	$	$ 6,725	$ 6,725
Weighted Average Interest Rate	1.59%						1.59%	
LIABILITIES								
Debt Obligations:								
Fixed Rate (JPY)	$	$ 18,988	$	$ 37,830	$	$	$ 56,818	$ 59,063
Weighted Average Interest Rate		3.55%		1.85%			2.42%	
Variable Rate (JPY)	18,988	18,991					37,979	37,979
Weighted Average Interest Rate	0.75%	0.58%					0.66%	
Total Debt Obligations	$ 18,988	$ 37,979	$	$ 37,830	$	$	$ 94,797	$ 97,042
Weighted Average Interest Rate	0.75%	2.06%		1.85%			1.71%	

Foreign currency risk. Overall, we are a net recipient of currencies other than the U.S. dollar and, as such, we benefit from a weaker dollar and are adversely affected by a stronger dollar relative to major currencies worldwide. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, may negatively affect our consolidated sales and gross margins as expressed in U.S. dollars.

We may enter into foreign exchange option and forward contracts to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues and challenges. Accordingly, we enter into contracts which change in value as foreign exchange rates change to economically offset the effect of changes in value of foreign currency assets and liabilities, commitments and anticipated foreign currency denominated sales and operating expenses. We enter into foreign exchange option and forward contracts in amounts between minimum and maximum anticipated foreign exchange exposures, generally for periods not to exceed one year.

We use foreign currency option contracts, which provide for the sale of foreign currencies to offset foreign currency exposures expected to arise in the normal course of our business. While these instruments are subject to fluctuations in value, such fluctuations are anticipated to offset changes in the value of the underlying exposures. The principal currencies subject to this process are the Japanese yen and the euro.

The foreign currency options are entered into to reduce the volatility of earnings generated in currencies other than the U.S. dollar, primarily earnings denominated in Japanese yen and the euro. As a result, the changes in the fair value of foreign currency option contracts during 2002 and 2001 are recorded through earnings as Unrealized loss (gain) on derivative instruments while any realized gains or losses on expired contracts are recorded through earnings as Other, net in the accompanying consolidated statements of earnings. The premium cost of purchased foreign exchange option contracts are recorded in Other current assets and amortized over the life of the options.

As part of Allergan s risk management strategy, foreign exchange forward contracts were entered into to protect the value of foreign currency denominated intercompany receivables and the changes in the fair value of the foreign currency forward contracts were economically designed to offset the changes in the revaluation of the foreign currency denominated intercompany receivables. As a result, our allocated portion of current changes in both the foreign currency forward contracts and revaluation of the foreign currency denominated intercompany receivables was recorded through Other, net in the accompanying consolidated statements of earnings.

At December 31, 2002, the aggregate notional amounts and strike amounts of our outstanding Yen and euro currency option contracts were $64.6 million and 126.17 and $46.5 million and 0.99, respectively. The notional principal amount provides one measure of the transaction volume outstanding as of year end, and does not represent the amount of our exposure to market loss. The fair value of these foreign currency option contracts was $1.2 million at December 31, 2002. The estimate of fair value is based on applicable and commonly used prevailing financial market information as of December 31, 2002. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

Through June 28, 2002, our allocated portion of changes in the revaluation of foreign currency forward and changes in the fair value of foreign currency option contracts was based on our percentage of net sales compared to total Allergan net sales. In the last half of 2002 and as part of the transitional services agreement with Allergan, we paid to Allergan the costs of certain Yen denominated foreign currency option contracts previously entered into by Allergan. The impact of foreign exchange risk management transactions on income was a net realized loss of $1.4 million in 2002, a net realized gain of $0.4 million and $1.8 million in 2001 and 2000, respectively, and are recorded in Other, net in the accompanying consolidated statements of earnings.

New Accounting Standards

In July 2001, Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141), was issued. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method combinations completed after June 30, 2001. SFAS No. 141 also requires that we evaluate our existing intangible assets and goodwill that were acquired in prior business combinations, and to make any necessary reclassifications in order to conform with the new criteria in SFAS No. 141 for recognition of intangibles apart from goodwill.

Additionally, in July 2001, Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), was issued and is effective for all fiscal years beginning after December 15, 2001 (January 1, 2002 for us). SFAS No. 142 establishes accounting and reporting standards for intangible assets. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives be evaluated annually for impairment rather than amortized. Upon adoption of SFAS No. 142, we will also be required to test goodwill and intangible assets with indefinite useful lives for impairment within the first interim period with any impairment loss being recognized as a cumulative effect of a change in accounting principle.

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In connection with the transitional goodwill impairment evaluation, SFAS No. 142 requires us to perform an assessment of whether there is an indication that goodwill and intangible assets with indefinite useful lives are impaired as of the date of adoption. To accomplish this, we must identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. We have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit s carrying amount. To the extent a reporting unit s carrying amount exceeds its fair value, an indication exists that the reporting unit s goodwill may be impaired.

We adopted the provisions of SFAS No. 141 on June 30, 2001 and SFAS No. 142 on January 1, 2002 effective with Allergan s adoption of the new accounting standards. Allergan s adoption of SFAS No. 142 did not result in a negative impact on Allergan s consolidated financial statements. As of December 31, 2002, we had unamortized goodwill in the amount of $103.0 million. Amortization expense related to goodwill was $9.0 million and $9.3 million for the years ended December 31, 2001 and 2000, respectively.

We completed a separate assessment of goodwill and intangibles on a stand-alone basis as of June 29, 2002. This separate assessment did not result in a negative impact on the consolidated financial statements.

In April 2002, Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS No. 145), was issued. SFAS No. 145 rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Upon adoption of SFAS No. 145, we will be required to apply the criteria in APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (Opinion No. 30), in determining the classification of gains and losses resulting from the extinguishment of debt. SFAS No. 145 is effective for annual years beginning after May 15, 2002, with earlier adoption encouraged. We elected to early-adopt SFAS No. 145 during the second fiscal quarter ended June 28, 2002. The adoption of SFAS 145 did not have a material effect on our consolidated financial statements.

In July 2002, Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146), was issued. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with earlier adoption encouraged. As the provisions of SFAS No. 146 are required to be applied prospectively after the adoption date, we cannot determine the potential effects that adoption of SFAS No. 146 will have on our consolidated financial statements.

In December 2002, Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation (SFAS No. 148), was issued. SFAS No. 148 amends the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), to require prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 also amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. We will commence quarterly footnote disclosure of the fair value based method of accounting for stock-based employee compensation beginning in the first quarter ending March 28, 2003. As we have decided not to voluntarily adopt the SFAS No. 123 fair value method of accounting for stock-based employee compensation, the new transition alternatives of SFAS No. 148 will not have a material impact on our consolidated financial statements.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 elaborates on the existing disclosure requirements for most guarantees. FIN 45 requires that at the time a company issues certain guarantees, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. FIN 45 s disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002 and are applicable to all guarantees issued by the guarantor subject to FIN 45 s scope, including guarantees issued prior to the issuance of FIN 45. The adoption of FIN 45 did not have a material impact on our consolidated financial statements.

In November 2002, the Emerging Issues Task Force finalized its consensus on EITF Issue 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21), which provides guidance on the method of revenue recognition for sales arrangements that include the delivery of more than one product or service. EITF 00-21 is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003. Under EITF 00-21, revenue must be allocated to all deliverables regardless of whether an individual element is incidental or perfunctory. We do not believe that the adoption of EITF-00-21 will have a material impact on our consolidated financial statements.

ADVANCED MEDICAL OPTICS, INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31, 2002	As of December 31, 2001
	(In thousands, except share data)	
ASSETS		
Current assets		
Cash and equivalents	$ 80,578	$ 6,957
Trade receivables, net	121,607	114,724
Inventories	46,129	65,237
Other current assets	26,180	23,634
Total current assets	274,494	210,552
Property, plant and equipment, net	39,830	28,293
Other assets	45,274	37,248
Goodwill and intangibles, net	103,608	101,373
Total assets	$ 463,206	$ 377,466
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current portion of long-term debt	$ 750	$ 18,988
Accounts payable	42,356	29,583
Accrued compensation	17,651	16,652
Other accrued expenses	47,447	20,328
Total current liabilities	108,204	85,551
Long-term debt, net of current portion	277,559	75,809
Other liabilities	11,759	2,176
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 28,723,512 and zero shares	287	
Additional paid-in capital	47,455	
Retained earnings	14,624	
Allergan, Inc. net investment		215,653
Accumulated other comprehensive income (loss)	3,331	(1,723)
	65,697	213,930
Less treasury stock, at cost (3,151 and zero shares)	(13)	
Total stockholders equity	65,684	213,930
Total liabilities and stockholders equity	$ 463,206	$ 377,466

See accompanying notes to consolidated financial statements.

ADVANCED MEDICAL OPTICS, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31,		
	2002	**2001**	**2000**
		(In thousands)	
Net sales	$ 538,087	$ 543,095	$ 570,573
Cost of sales	204,338	212,090	231,426
Gross margin	333,749	331,005	339,147
Selling, general and administrative	235,977	222,885	241,047
Research and development	29,917	28,990	29,878
Restructuring charge reversal			(2,237)
Operating income	67,855	79,130	70,459
Non-operating expense (income)			
Interest expense	13,764	3,302	3,625
Loss (gain) on investments, net	3,935	793	(231)
Unrealized loss (gain) on derivative instruments	3,199	(1,294)	
Other, net	2,385	385	(1,135)
	23,283	3,186	2,259
Earnings before income taxes	44,572	75,944	68,200
Provision for income taxes	18,662	20,594	19,020
Earnings before cumulative effect of change in accounting principle	25,910	55,350	49,180
Cumulative effect of change in accounting principle, net of $160 of tax		(391)	
Net earnings	$ 25,910	$ 54,959	$ 49,180

See accompanying notes to consolidated financial statements.

ADVANCED MEDICAL OPTICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

	Common Stock					Accumulated	Treasury Stock			
	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Allergan Inc. Net Investment	Other Comprehensive Income (Loss)	Shares	Amount	Total	Comprehensive Income
					(in thousands)					
Balance at December 31, 1999		$	$	$	$ 246,757	$ (8,037)		$	$ 238,720	
Comprehensive income										
Net earnings					49,180				49,180	$ 49,180
Other comprehensive income:										
Foreign currency translation adjustments						4,039			4,039	4,039
Total comprehensive income										$ 53,219
Distributions to Allergan, Inc., net of advances					(76,680)				(76,680)	
Balance at December 31, 2000					219,257	(3,998)			215,259	
Comprehensive income										
Net earnings					54,959				54,959	$ 54,959
Other comprehensive income:										
Foreign currency translation adjustments						2,275			2,275	2,275
Total comprehensive income										$ 57,234
Distributions to Allergan, Inc., net of advances					(58,563)				(58,563)	
Balance at December 31, 2001					215,653	(1,723)			213,930	
Comprehensive income										
Net earnings prior to spin-off					11,286				11,286	$ 11,286
Net earnings subsequent to spin-off				14,624					14,624	14,624
Other comprehensive income:										
						6,226			6,226	6,226

Foreign currency translation adjustments										
Unrealized loss on derivative instruments qualifying as cash flow hedges, net of $814 of tax						(1,172)			(1,172)	(1,172)
Total comprehensive income										$ 30,964
Issuance of common stock in connection with the spin-off (note 1)	28,724	287	80,094		(80,381)					
Dividend and distributions to Allergan, Inc., net of advances and $17,513 of deferred tax assets resulting from the spin-off			(32,639)		(146,558)				(179,197)	
Purchase of treasury stock, at cost							(3)	(13)	(13)	
Balance at December 31, 2002	28,724	$ 287	$ 47,455	$ 14,624	$	$ 3,331	(3)	$ (13)	$ 65,684	

See accompanying notes to consolidated financial statements.

ADVANCED MEDICAL OPTICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	**2001**	**2000**
		(in thousands)	
Cash flows provided by operating activities			
Net earnings	$ 25,910	$ 54,959	$ 49,180
Non cash items included in net earnings:			
Cumulative effect of accounting change for derivative instruments		551	
Amortization of original issue discount and debt issuance costs	814		
Depreciation and amortization	15,746	22,093	22,653
Amortization of prepaid royalties		392	7,364
Deferred income taxes	4,150	(3,222)	(56)
Loss on investments and assets	5,788	3,080	2,165
Unrealized loss (gain) on derivatives	3,199	(1,294)	
Restructuring charge reversal			(2,237)
Changes in assets and liabilities:			
Trade receivables	2,809	2,426	(3,610)
Inventories	19,041	5,858	7,721
Other current assets	(2,887)	(6,047)	617
Accounts payable	11,994	(909)	6,335
Accrued expenses	35,702	1,203	3,606
Other non-current assets	(5,632)	(3,278)	(91)
Net cash provided by operating activities	116,634	75,812	93,647
Cash flows from investing activities			
Additions to property, plant and equipment	(16,737)	(5,865)	(6,578)
Proceeds from sale of property, plant and equipment	591	901	195
Additions to capitalized internal-use software	(948)	(3,069)	(523)
Additions to demonstration and bundled equipment	(4,993)	(6,428)	(4,132)
Net cash used in investing activities	(22,087)	(14,461)	(11,038)
Cash flows from financing activities			
Net decrease in notes payable		(7,595)	(38,497)
Proceeds from issuance of senior subordinated notes	197,194		
Long-term debt borrowings	108,363		43,522
Repayment of long-term debt	(136,363)		
Net proceeds from settlement of interest rate swap	5,637		
Dividend and distributions to Allergan, Inc., net of advances	(196,710)	(58,563)	(76,680)
Purchase of treasury stock	(13)		
Net cash used in financing activities	(21,892)	(66,158)	(71,655)
Effect of exchange rates on cash and equivalents	966	(877)	(563)
Net increase (decrease) in cash and equivalents	73,621	(5,684)	10,391
Cash and equivalents at beginning of year	6,957	12,641	2,250

Cash and equivalents at end of year	$ 80,578	$ 6,957	$ 12,641
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	$ 3,790	$ 3,166	$ 3,457
Income taxes	$ 3,240	660	138

See accompanying notes to consolidated financial statements.

ADVANCED MEDICAL OPTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002, 2001 and 2000

Note 1: Description of Business

Advanced Medical Optics, Inc. (AMO or the Company) develops, manufactures and markets surgical devices for the eyes, with a focus on devices that are used to perform cataract surgery, a surgery in which the natural focusing lens of the eye, having become hard and clouded, is broken up and removed and subsequently replaced with an artificial lens. The Company also offers a broad range of eye care products for use with virtually all available types of contact lens. These products include 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.

The Company has operations in approximately 20 countries and sells its products in approximately 60 countries. On June 29, 2002, Allergan, Inc. (Allergan) transferred its optical medical device business consisting of the ophthalmic surgical and eye care product lines to the Company in connection with a tax-free spin-off. The 28,723,512 shares of AMO were distributed on June 29, 2002 to Allergan stockholders of record on June 14, 2002 by means of a tax-free dividend. The spin-off resulted in AMO operating as an independent entity with publicly traded common stock. Unless the context indicates otherwise, references to the Company and AMO refer to Allergan s optical medical device business for periods prior to June 29, 2002 and to AMO and its subsidiaries for the periods on or after such date.

Allergan has no ownership interest in AMO after June 29, 2002, but performs certain services for AMO pursuant to various agreements that are outlined in Note 7. However, unless released by third parties, Allergan may remain liable for certain obligations and liabilities that were transferred to and assumed by AMO. The Company is obligated to indemnify Allergan for liabilities related to those transferred obligations and liabilities.

No annual earnings per share data is presented as the Company s earnings were part of Allergan s earnings through the close of business on June 28, 2002.

Note 2: Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist the reader in understanding and evaluating the consolidated financial statements. These policies are in conformity with accounting principles generally accepted in the United States of America and have been applied consistently in all material respects. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expense during the reporting period, and related disclosures. Actual results could differ from those estimates.

Basis of Presentation

The consolidated financial statements include the accounts of Advanced Medical Optics, Inc. and all of its subsidiaries. All significant transactions among the consolidated entities have been eliminated from the consolidated financial statements.

The consolidated financial statements have been prepared using Allergan s historical bases in the assets and liabilities and the historical results of operations of the optical medical device business prior to the spin-off. Prior to the spin-off, Allergan did not account for the business that comprises AMO on the basis of separate legal entities, subsidiaries, divisions or segments. The accompanying consolidated financial statements as of December 31, 2001 and through June 28, 2002 include those assets, liabilities, revenues and expenses directly attributable to

ADVANCED MEDICAL OPTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002, 2001 and 2000 (Continued)

AMO s operations and allocations of certain Allergan corporate assets, liabilities and expenses to AMO. These amounts have been allocated to AMO on the basis that was considered by Allergan management to reflect most fairly or reasonably the utilization of the services provided to or the benefit obtained by the Company. The financial information included herein does not necessarily reflect what the financial position and results of operations of the Company would have been had it operated as a stand-alone public entity during all pre spin-off periods presented, and may not be indicative of future operations or financial position.

Foreign Currency Translation

The financial position and results of operations of AMO s foreign operations are generally determined using local currency as the functional currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive income (loss) in stockholders equity. Gains and losses resulting from foreign currency transactions and remeasurements relating to foreign operations deemed to be operating in U.S. dollar functional currency in highly inflationary economies are included in earnings.

Cash and Equivalents

The Company considers cash and equivalents to include cash in banks, money market mutual funds and repurchase agreements with financial institutions with original maturities of 90 days or less. Cash and equivalents at December 31, 2001, include only those amounts that were considered part of the AMO operations upon spin-off.

Prior to the spin-off, AMO participated in a centralized cash management program administered by Allergan in which AMO received short-term advances from Allergan or made transfers of excess cash to Allergan. These transactions were recorded as an adjustment to the Allergan, Inc. net investment account. No interest was charged on this balance.

Investments

The Company has non-marketable equity investments in conjunction with its various collaboration arrangements. The non-marketable equity investments are recorded at cost and are evaluated periodically for other than temporary declines in fair value. If it is determined that a decline of any investment is other than temporary, then the carrying value would be written down to fair value, and the write-down would be included in earnings as a loss.

During 2002, the Company determined that the decline in fair value of two non-marketable equity investments was other than temporary. Accordingly, a loss of $3.9 million was recorded.

Inventories

Inventories are valued at the lower of first-in, first-out cost or market. On a regular basis, the Company evaluates its inventory balances for excess quantities and obsolescence by analyzing demand, inventory on hand, sales levels and other information. Based on these evaluations, inventory balances will be reduced, if necessary.

ADVANCED MEDICAL OPTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002, 2001 and 2000 (Continued)

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Additions, major renewals and improvements are capitalized, while maintenance and repairs are expensed. For financial reporting purposes, depreciation is generally provided on the straight-line method over the useful lives of the related assets, which are 20 to 40 years for buildings and improvements and from 3 to 15 years for machinery and equipment. Leasehold improvements are amortized over the life of the related facility leases or the asset, whichever is shorter. Accelerated depreciation methods are generally used for income tax purposes.

Goodwill and Intangibles

Goodwill represents the excess of acquisition costs over the fair value of net assets of purchased businesses and was amortized on a straight-line basis over periods ranging from 7 to 30 years through December 31, 2001. After December 31, 2001, goodwill is no longer amortized. Intangibles include patents, licensing agreements and marketing rights and are amortized over their estimated useful lives ranging from 3 to 10 years.

Accounting for Long-Lived Assets

Long-lived assets are reviewed for impairment in value when changes in circumstance dictate, based upon undiscounted future operating cash flows, and appropriate losses are recognized and reflected in current earnings, to the extent the carrying amount of an asset exceeds its estimated fair value determined by the use of appraisals, discounted cash flow analyses or comparable fair values of similar assets.

Capitalized Software

The Company capitalizes certain internal-use computer software costs after technological feasibility has been established. These capitalized costs are amortized utilizing the straight-line method over its estimated economic life not to exceed three years.

Demonstration (Demo) and Bundled Equipment

In the normal course of business, the Company maintains demo and bundled equipment, primarily phacoemulsification and microkeratome surgical equipment, for the purpose and intent of selling similar equipment or related products to the customer in the future. Demo and bundled equipment are not held for sale and are recorded as other non-current assets. The assets are amortized utilizing the straight-line method over their estimated economic life not to exceed three years.

Revenue Recognition and Accounts Receivable

The Company recognizes revenue from product sales when title and risk of loss transfer to the customer, with the exception of intraocular lenses, which are generally distributed on a consignment basis and recognized as revenue upon implantation in a patient. The Company generally permits returns of product if such product is returned in a timely manner, in good condition, and through the normal channels of distribution. Return policies in certain international markets can be more stringent and are based on the terms of contractual agreements with customers. Allowances for returns are provided for based upon an analysis of the Company s historical patterns of returns matched against the sales from which they originated. Historical product returns have been within the amounts reserved.

ADVANCED MEDICAL OPTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002, 2001 and 2000 (Continued)

The allowance for doubtful accounts is determined by analyzing specific customer accounts and assessing the risk of uncollectibility based on insolvency, disputes or other collection issues. In addition, the Company routinely analyzes the different aging categories and establishes reserves based on the length of time receivables are past due.

Income Taxes

The Company records income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Management evaluates the need to establish a valuation allowance for deferred tax assets based upon the amount of existing temporary differences, the period in which they are expected to be recovered and expected levels of taxable income. A valuation allowance to reduce deferred tax assets is established when it is more likely than not that some or all of the deferred tax assets will not be realized. No provision is made for taxes on unremitted earnings of certain non-U.S. subsidiaries which are or will be reinvested indefinitely in such operations.

Prior to the spin-off, AMO s operations were included in Allergan s consolidated U.S. federal and state income tax returns and in the tax returns of certain Allergan foreign subsidiaries. The provision for income taxes prior to the spin-off had been determined as if AMO had filed separate tax returns under its existing structure for the periods presented. Accordingly, the effective tax rate of AMO in future years could vary from its historical effective tax rates depending on AMO s future legal structure and tax elections. Prior to the spin-off, a majority of income taxes were paid by Allergan and reflected through the Allergan, Inc. net investment account.

In preparing its consolidated financial statements, the Company is required to estimate its income taxes in each jurisdiction in which it operates. This process involves estimating the current liability as well as assessing temporary differences resulting from differing treatment of items for tax and financial accounting purposes. Significant management judgment is required in determining the provision for income taxes and deferred tax assets and liabilities. The stated effective tax rate could be materially affected in the event the actual tax results differ from these estimates or if the Company adjusts these estimates in future periods.

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 pro forma effects to net earnings are presented in Note 10 as if the fair value method had been applied.

Allergan, Inc. Net Investment

Allergan, Inc. net investment represents the cumulative investments in, distributions from, and earnings of AMO prior to the spin-off.

Research and Development

Research and development costs are charged to expense when incurred.

ADVANCED MEDICAL OPTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002, 2001 and 2000 (Continued)

Comprehensive Income

Comprehensive income encompasses all changes in equity other than those with stockholders and consists of net earnings, foreign currency translation adjustments and unrealized gains/losses on derivative instruments.

Recently Adopted Accounting Standards

In July 2001, Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141), was issued. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method combinations completed after June 30, 2001. SFAS No. 141 also requires the Company to evaluate its existing intangible assets and goodwill that were acquired in prior business combinations, and to make any necessary reclassifications in order to conform to the new criteria in SFAS No. 141 for recognition of intangibles apart from goodwill.

Additionally, in July 2001, Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), was issued and is effective for all fiscal years beginning after December 15, 2001 (January 1, 2002 for the Company). SFAS No. 142 establishes accounting and reporting standards for intangible assets. SFAS No. 142 requires goodwill and intangible assets with indefinite useful lives be evaluated annually for impairment rather than amortized. Upon adoption of SFAS No. 142, the Company is also required to test goodwill and intangible assets with indefinite useful lives for impairment within the first interim period with any impairment loss being recognized as a cumulative effect of a change in accounting principle.

In connection with the transitional goodwill impairment evaluation, SFAS No. 142 requires the Company to perform an assessment of whether there is an indication that goodwill and intangible assets with indefinite useful lives are impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company then has up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit s carrying amount. To the extent a reporting unit s carrying amount exceeds its fair value, an indication exists that the reporting unit s goodwill may be impaired.

The Company adopted the provisions of SFAS No. 141 on June 30, 2001 and SFAS No. 142 on January 1, 2002, effective with Allergan s adoption of the new accounting standard. Allergan s adoption did not result in a negative impact on Allergan s consolidated financial statements.

The Company has completed a separate assessment of goodwill and intangibles on a stand-alone basis as of June 29, 2002. The Company s separate assessment did not result in a negative impact on the consolidated financial statements.

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December 31, 2002, 2001 and 2000 (Continued)

The components of amortizable intangibles and goodwill were as follows:

Intangibles

	December 31, 2002		December 31, 2001	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
	(In thousands)			
Amortized intangible assets:				
Licensing	$ 3,940	$ (3,940)	$ 3,940	$ (3,004)
Trademarks	652	(87)	78	(15)
	$ 4,592	$ (4,027)	$ 4,018	$ (3,019)

Amortization expense was $1.0 million, $0.3 million and $0.2 million in 2002, 2001 and 2000, respectively. The amortization expense in 2002 includes the impact of the reduction in the estimated useful life of a licensing agreement.

Estimated amortization expense is $0.2 million for the year ending December 31, 2003 and $0.1 million for each of the years ending December 31, 2004, 2005, 2006 and 2007.

Goodwill

	December 31, 2002	December 31, 2001
	(In thousands)	
Goodwill:		
United States	$ 12,783	$ 12,783
Japan	25,474	22,805
Manufacturing operations	64,786	64,786

	$ 103,043	$ 100,374

There was no activity related to goodwill during 2002 except for the impact of foreign currency fluctuations.

Pro forma financial information related to the adoption of SFAS No. 142 is as follows:

	Year ended December 31,		
	2002	**2001**	**2000**
		(In thousands)	
Net earnings	$ 25,910	$ 54,959	$ 49,180
Add back:			
Goodwill amortization, net of tax		5,388	5,579
Adjusted net earnings	$ 25,910	$ 60,347	$ 54,759

In April 2002, Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS No. 145), was issued. SFAS No. 145 rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Upon

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adoption of SFAS No. 145, the Company is required to apply the criteria in APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (Opinion No. 30), in determining the classification of gains and losses resulting from the extinguishment of debt. SFAS No. 145 is effective for annual periods beginning after May 15, 2002, with earlier adoption encouraged. The Company elected to early-adopt SFAS No. 145 during the quarter ended June 28, 2002. The adoption of SFAS 145 did not have a material effect on the Company s consolidated financial statements.

New Accounting Standards Not Yet Adopted

In July 2002, Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146), was issued. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with earlier adoption encouraged. As the provisions of SFAS No. 146 are required to be applied prospectively after the adoption date, the Company cannot determine the potential effects that adoption of SFAS No. 146 will have on the Company s consolidated financial statements.

In December 2002, Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation (SFAS No. 148), was issued. SFAS No. 148 amends the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), to require prominent disclosures in both interim and annual financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 also amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Company will commence quarterly footnote disclosure of the fair value based method of accounting for stock-based employee compensation beginning in the first quarter ending March 28, 2003. As the Company has decided not to voluntarily adopt the SFAS No. 123 fair value method of accounting for stock-based employee compensation, the new transition alternatives of SFAS No. 148 will not have a material impact on the Company s consolidated financial statements.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 elaborates on the existing disclosure requirements for most guarantees. FIN 45 requires that at the time a company issues certain guarantees, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. FIN 45 s disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002 and are applicable to all guarantees issued by the guarantor subject to FIN 45 s scope, including guarantees issued prior to the issuance of FIN 45. The adoption of FIN 45 did not have a material impact on the Company s consolidated financial statements.

In November 2002, the Emerging Issues Task Force finalized its consensus on EITF Issue 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21), which provides guidance on the method of revenue recognition for sales arrangements that include the delivery of more than one product or service. EITF 00-21 is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003.

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Under EITF 00-21, revenue must be allocated to all deliverables regardless of whether an individual element is incidental or perfunctory. The Company does not believe that the adoption of EITF-00-21 will have a material impact on the Company s consolidated financial statements.

Note 3: Special Charges

In 1996, the Company recorded a $42.3 million restructuring charge to streamline operations and reduce costs through management restructuring and facilities consolidation. In 2000, the Company completed all activities related to the 1996 restructuring plan and eliminated the remaining accrual of $2.2 million.

Note 4: Composition of Certain Financial Statement Captions

	December 31,	
	2002	2001
	(in thousands)	
Trade receivables, net		
Trade receivables	$ 127,069	$ 117,247
Less allowance for doubtful accounts	5,462	2,523
	$ 121,607	$ 114,724
Inventories		
Finished products, including consignment inventory of $7,417 and $6,653 in 2002 and 2001, respectively	$ 39,500	$ 51,479
Work in process	1,441	5,078
Raw materials	5,188	8,680
	$ 46,129	$ 65,237
Other current assets		
Prepaid expenses	$ 7,550	$ 5,825
Deferred taxes	10,091	9,620
Other	8,539	8,189
	$ 26,180	$ 23,634
Property, plant and equipment, net		
Buildings and leasehold improvements	$ 32,880	$ 23,414

Machinery, equipment and furniture	46,757	34,944
	79,637	58,358
Less accumulated depreciation	39,807	30,065
	$ 39,830	$ 28,293

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Note 5: Debt and Guarantor Subsidiaries

	Average Rate of Interest	December 31, 2002	December 31, 2001
		(In thousands)	
Senior Subordinated Notes due 2010	9.25%	$ 200,000	$
Bank term loan	4.90%	75,000	
Yen denominated notes	1.71%		94,797
Fair value adjustment (note 6)		418	
Unamortized realized gain on interest rate swap (note 6)		5,515	
Unamortized debt discount		(2,624)	
		278,309	94,797
Less current maturities		750	18,988
Long-term debt, net of current portion		$ 277,559	$ 75,809

On June 20, 2002, the Company issued $200 million of 9-1/4% Senior Subordinated Notes due July 15, 2010 (Notes). The Notes were issued at a discount of $2.8 million. Interest on the Notes is payable on January 15 and July 15 of each year, commencing on January 15, 2003. The Notes are redeemable at the option of the Company, in whole or in part, at any time on or after July 15, 2006 at various redemption prices.

The Company has a senior credit facility, consisting of a $100.0 million term loan and a $35.0 million revolving line of credit. The term loan and the revolving credit facility mature on June 30, 2008 and 2007, respectively. The term loan and borrowings under the revolving line of credit, if any, generally bear interest at current market rates plus a margin based upon the Company s senior secured debt rating or debt to equity ratio. Mandatory prepayment of borrowings under the senior credit facility is required from excess cash flow, as defined in the credit agreement, and from proceeds from certain equity or debt offerings, asset sales and extraordinary receipts. The Company pays a quarterly fee (3.20% per annum at December 31, 2002) on the average balance of outstanding letters of credit and a quarterly commitment fee (0.50% at December 31, 2002) on the average unused portion of the senior credit facility.

As of December 31, 2002, the Company has repaid $25.0 million of the term loan and has no outstanding borrowings under the revolving line of credit. Approximately $17.9 million of the revolving line of credit has been reserved to support letters of credit issued on the Company s behalf. In January 2003, the Company repaid an additional $25.0 million of the term loan.

The discount on the Notes and the issuance costs on the Notes and the credit facility approximated $13.1 million at issuance and are being amortized to interest expense over the terms of the related debt.

A portion of the proceeds from the Notes and the term loan were used to repay debt in Japan in June 2002. As a result of the prepayment of the Japan debt and the adoption of SFAS No. 145, $3.5 million of early debt extinguishment costs were incurred and recorded in Other, net on the accompanying consolidated statement of earnings.

The senior credit facility provides that the Company will maintain certain financial and operating covenants which include, among other provisions, maintaining specific leverage and interest coverage ratios. Certain covenants under the senior credit facility and the indenture relating to the Notes also limit the incurrence of additional indebtedness. The senior credit facility prohibits dividend payments. The Company was in compliance with these covenants at December 31, 2002.

As of December 31, 2002, the aggregate maturities of total long-term debt are as follows: $0.8 million each year between 2003 and 2006; $36.0 million in 2007 and $236.0 million after 2007.

In connection with the issuance of the Notes, one of the Company s subsidiaries (the Guarantor Subsidiary) jointly, fully, severally and unconditionally guaranteed such Notes. Pursuant to the Securities and Exchange Commission regulations, certain condensed financial information about the Parent, Guarantor Subsidiary and Non-Guarantor Subsidiaries is required to be disclosed. The following provides this required financial information subsequent to the spin-off.

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Consolidated Statement of Earnings Six months ended December 31, 2002 (in thousands)	Parent	Guarantor Subsidiary	Non- Guarantor Subsidiaries