

## Seeking Alpha $\alpha$

# Advanced Medical Optics, Inc. Q3 2007 Earnings Call Transcript

## Question-and-Answer Session

---

### Operator

: [Operator Instructions]. And your first audio question comes from the line of Chris Cooley with FTN Midwest Securities.

### Chris Cooley - FTN Midwest Research

Thanks. Good morning. Can you hear me okay?

### James V. Mazzo - Chairman of the Board, President and Chief Executive Officer

Yes Chris.

### Chris Cooley - FTN Midwest Research

Nice quarter.

### James V. Mazzo - Chairman of the Board, President and Chief Executive Officer

Thank you.

### Chris Cooley - FTN Midwest Research

Nice to see the leverage in the top line start to accelerate. I have two questions this morning. One, if I look to the P&L the one kind of area that jumps out is the core cataract business. Can you talk a little bit Jim about what you can do to reaccelerate growth there on the IOL front primarily looks like in the Asian marketplace and also in the States until you get a dispersive launched? And in secondly, when I look through on the consumer business and most notably the multipurpose, you've done a great job there in getting back in the hunt quickly. Talk to us little bit about the next-gen products and potential timing there what if any kind of changes the regulatory front we may see or may not see in '08? Thank you.

### James V. Mazzo - Chairman of the Board, President and Chief Executive Officer

All right, thanks Chris. Let's look at the cataract business, I think there's couple of positives and one area that we need to improve. If you look at the intraocular lens particularly from a monofocal standpoint, you can see that we rose about... we rose 7.6% which is obviously higher than the overall market. I think the thing here as you articulated is we now can expand our strategy. Remember going back about 18 months when we really had to kind of get out of some of our older product lines, lower technological and lower margin, we quickly adopted and upgraded our existing base to the Tecnis line. So we've basically been able to 'positively' cannibalize our older product lines through our Tecnis. But we've been at somewhat of a disadvantage in several marketplaces because the 1-Piece is the large segment especially here in the United States I have discussed.

Now having a 1-Piece but with clear superiority of 1-Piece technologies have issues like PCO and edge glare. Now having a 1-Piece that allows us to be extremely competitive will now take us from really upgrading our existing base to moving to gaining share. Looking out so at the other part of the business, it's moving quite well. As obviously you have seen since especially... where we were out of the spin, our phacoemulsification system clearly articulates the strength there with WhiteStar and now with the Signature and we'll be continuing to upgrade. I think one of our strengths has been

upgrading that machine and you are going to see even some new additions to that Signature system over the next 6 to 12 months. And then of course that pact business with that strong high single digits, meaning that our established base is performing. So the existing WhiteStar systems are being utilized. And so now we can even upgrade and gain more share.

I think the disappointment there is still in the viscoelastic product line, and that's really hampering some of the OUS business. Healon was a large product in Japan, and with the reimbursement challenges that we have continued to face out there, with viscoelastics being more a commodity business outside the United States. That's put some challenge and what you are seeing is that we are all having to kind of bundle this into our packaging. The good news about that is we have outside the United States, we have both the dispersive and cohesive. So it's been able to penetrate and grow our IOL offering. What we lack here in the United States is that dispersive.

So it's kind of a long answer but very strategic answer to your cataract. If you look at the eye care, Randy jump in here. I think that our goal is obviously to first off, build off of COMPLETE. And I think the one thing that I am really pleased about is the outstanding job of getting back on the market but I think there has been misnomers about what is this product. I think you clearly could see with reports out there with Andrasko study and then the evaporation that this product has unbelievable merits in its disinfection capability. And by having the support of the practitioners on the rub-and-rinse we clearly were able to articulate a message and you've already seen market share gains in the United States without any detailing efforts for the doctor's office. But of course this category is going to be... continue to be built on new products. I think the FDA is continuing to look at the standards. It's going to need to bring new contact lens care products. We're obviously staying very close to that, and I think the earliest we would project anything come out of our pipeline, would you agree Randy would be about 2009?

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

Yes I think that's pretty consistent I mean. Chris, answer your question. Today to reiterate Jim we are completely focussed on re-launching MPS globally and we are still rolling it out in a few countries over in Asia Pacific and recapturing market share and in the U.S. we'll be quickly shifting over to the launch of our dry eye product in the first quarter of next year. So I think we have got a full plate right now. Longer-term we'll be looking at our upgrade strategy, but again I think given where the FDA is, in terms of what they are looking at for approvals it's probably will be not sooner than 2009 timeframe.

**Chris Cooley - FTN Midwest Research**

Thank you.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Thank you.

**Operator**

: Your next question comes from the line of Larry Biegelsen with Wachovia.

**Larry Biegelsen - Wachovia Securities**

Hi thanks and good morning. First question is on the guidance for 2007. If I look at the midpoint for sales for 4Q... if I bake into the 4Q number it's about 274, using the midpoint of your full year guidance which is about \$12 million below consensus and sequentially flat with this quarter up a \$1 million. Is there... was there something unusual about this quarter? Or what can you say about the fourth quarter, why you know it would be that way? And then just one on R&D spending in the quarter. Is this the run rate we should expect going forward? In your guidance I think last quarter you gave for R&D was about 6.5% for full year R&D spending. Does that still stand? Thanks.

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

Okay. On the R&D side again as you have been indicated as we move through the integration of the IntraLase and WaveFront Sciences we'll continue to be putting the two teams together. So we will be down in sort of the mid 6% range moving into 2008. So that should be consistent. So again we are still under process of consolidating the R&D operations from some of the acquisitions we did earlier this year. But that's fairly consistent with the guidance that we gave.

In terms of hitting 2007 revenue guidance we are very comfortable with where we are today. As you know couple of our businesses do have some seasonality to them in the fourth quarter, and we have historically had a stronger fourth quarter revenue platform. So again we are still very comfortable where we're going to end up the year and moving into next year. So I think that's as much as we can say in terms of our revenue.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Yes if there is anything in the businesses that would stop what we've been doing I think as Randy says you've got Q4, you tend to have the holiday period of time and for cataract procedures. But I will tell you there is nothing to a grand degree that it isn't going to continue the performance that we have seen over the last several quarters.

**Larry Biegelsen - Wachovia Securities**

Thank you.

**Operator**

: Your next question comes from the line of Joanne Wuensch with BMO Capital Markets.

**Joanne Wuensch - BMO Capital Markets**

Good morning. Can you talk about how you plan on marketing your dry eye product and what kind of revenue ramp we can be looking for through 2008?

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Well I'll... let me... again dry eye is a very interesting category something I am very familiar with. I think that the power of this product line is that it will be marketed across all three businesses run by the eye care franchise. Meaning that we will have our optometric sales force sell this product line to the optometric and optician community across the globe... or I am sorry primarily in the U.S. and then later in Europe.

In our cataract sales force which speaks to corneal specialists which are the specialists for dry eye will also market this product. And then of course as you know Joanne the LASIK surgeons even with the IntraLase technology reducing the overall effective dry eye you still get some post LASIK dry eye symptoms. So all three will market this product. I think that the point about this product though it has to have clear differentiation from what's available out there. You either to have a Tear that's too viscous and people really can't utilize how the function after installing the tear or some of the tears are too thin and they tend to drain out and you have to have repeat usage. Our unique formulation will allow us to really enhance the negatives of both of those and then really supplant some of the products that are on the market today.

In addition, strong synergistic effects with product like Restasis where they tend to be used in the morning and evening and you need something in the middle. One other point about this is, what we love about this category is this is a very high brand loyal product line that once the patient stays on it, they stick to it. From a revenue basis we are looking at about, about 8 --

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

No we haven't really given too much guidance in terms of where we are in terms of dry eye last year. Obviously the original launch we were... have given guidance that... we expected just to get a place all over. I think we have suggested given the size of the market that getting a couple of percentage points in terms of market share in the first year would be our targeted objective.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Right, about \$4 million to \$500 million market.

**Joanne Wuensch - BMO Capital Markets**

Okay, and then I apologize if you said this. What are you thinking about the laser vision correction procedures this year? And again going into next year, do you think though how do you think they'll track?

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Well again if you are talking about the market Joanne which I am assuming you are.

**Joanne Wuensch - BMO Capital Markets**

Yes.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

We project this year the market to continue to be flat. I think there was a little slight upturn in Q3, and then our projection for the next year, we are still looking and meeting with the individual practitioners, as well as the change. And I would assume that the market probably is going to maintain [ph] just to be up a small amount. We'd rather be modest in that expectation and then any uptake obviously is to our benefit. But again let's make sure everybody on the call clearly understands as the evidence over the last three quarters, we have far exceeded the marketplace, and we will continue to do well, because of our penetration into the independents, chains as well as strong combination of femtosecond. So it's not just femtosecond laser it's about excimer procedures. And then of course outside the United States it's really a combination of procedure growth and custom mix. And with our custom mix going from about 10% to 20% which still affords us a tremendous amount of opportunity as well as procedures in the markets, we market doing extremely well growing strong double digits. We are in good shape from that end. Okay.

**Joanne Wuensch - BMO Capital Markets**

Thank you.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

You're welcome.

**Operator**

Your next question comes from the line of Marc Goodman with Credit Suisse.

**Marc Goodman - Credit Suisse**

Couple of things. One is on the contact lens solutions. Are we done with the returns such that in the fourth quarter we should actually see whatever the sales are going to be? Second question is, can you just talk about the U.S. refractive IOLs and just the dynamic there and what's happening and also in the international side? And then third is, you mentioned the LASIK Monovision can you talk about how the trials are going for the presby-LASIK the real exciting opportunity? Thanks.

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

Hi Marc this Randy. With regard to your first question on the contact lens solutions. We believe that we have addressed the returns issue this quarter, so I wouldn't anticipate there to be really any impact related to returns on a going forward basis. So I guess your question do you think you've got a good picture of where revenue is MPS? I think that will be a good picture. I would caution everyone to say as excited in... and I think is positive as it's been to get back in market quickly, where positive nature of the uptake we are seeing, some of the retailers and reordering. I just want to reiterate we think it will well into first quarter where we get some real solid data relating to market share, and where we are. So although we are very positive about the results we expect in the fourth quarter I just want to make sure that we'll still be building share for some time to come.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Marc let me take number two and three questions. The second question is on the refractive IOL market and you clearly are thinking that it's the right way to look at it. There is a U.S. and OUS and I'll start with the U.S. first. We believe our overall share on the global basis is still about in the 20% range. We've grown faster right now in the OUS than we are in the U.S. I think what's happened in the U.S. is that the surgeon adoption is slowing a bit, and you've seen mix shift with the Ionics gaining some share in the overall refractive IOL market which has had some impact quite candidly on our mix and match availability.

The other thing that we interest... we've seen interesting is that individual private practitioners where we've gained some of our strength in laser vision correction has turned some of their practice back into a LASIK practice, and hasn't turned it over to individual refractive IOL practice as much as we talk. Now the good news for us is as we've said earlier our goal is to grow refractive procedures. So if they want to do a LASIK and set over refractive IOLs and that's fine with as long as it's our procedure. So I think you've seen individual doctors and if you look at MarketScope you saw that actually individual practitioners share of the LASIK market increase over the last couple of quarters. Now the other positive point though as I think about the U.S. market is that new technologies and new adaptations to existing product lines will help. And that's why I am glad the competition is actual continuing to invest because the positive about that is it's encouraging doctors to it try the refractive IOL offering. Now outside the United States we have gone... we've grown extremely well. And I think that speaks to the positiveness of Tecnis Multifocal. As I have always said it's still is the best athlete. It provides the best visual, outcomes. It minimizes some of the negatives that you hear about the multifocal IOLs. And of course then we don't have to give away half of our offering because, our offering of ReZoom and Tecnis Multifocal. And so that's why we are doing everything possible in R&D to bring Tecnis Multifocal to the United States.

If you want ... and then if you look at the presbyopic hyperopic opportunity with our LASIK I think that the point is, what we are doing is, as we are working with practitioners in Europe because it's not a question of when, it's more of a question of what. Meaning the bigger the opportunity to improve the refractive there, such... for the primarily what I see is the hyperopic presbyopic the bigger the marketplace. So we are quite comfortable that we are going to have correction and positive correction. The question is what's the degree. If we get one and a half to two that opens up a marketplace, if you get two to two and half it opens up a bigger marketplace and an obviously three plus is a bigger marketplace. So that's what we are testing right now in the trials in Europe, with some of our key practitioners, and then looking forward to bringing that into the United States.

**Marc Goodman - Credit Suisse**

Is this the type of thing where 12 months from now you think you will have real good idea of how good a product it's going to be?

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

I think what... the answer is we'll definitely have a better understanding. And again I think as you said it's the opportunity, it's not it, it's just the size. So I think by the end of next year, we will have had about a year under our... little over a year under our belt. And the answer is we will have much more data to be able to predict the size of this opportunity. The nice thing about this Marc is when it does come to the U.S. market assuming on the positive that it has a real diopter change even at somewhat of a minimal diopter change, little less than two or two, this is another added incentive for doctors to advertise, the term presbyopia. That's why I talked about this monovision. When you can advertise presbyopia and if you go back to the history of LASIK any time there's a new indication doctors advertise you get a bump up in people coming into the office. So you know I think the perfect market is we get the presbyopia claim and it has a large diopter change. If it's someone in the middle

it still gives us a presbyopic claim. And I think we're the only ones that I know about that are this far advance in trials and have the capabilities to be able to address that market. Okay Operator next question?

**Operator**

: And your next question comes from the line of Jared Holt [ph] with Bear Stearns.

**Unidentified Analyst**

: Good morning, thank you.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

You are welcome.

**Unidentified Analyst**

: Jim just I am little bit confused on your comments on the U.S. refractive IOL market. Just given the fact that we have seen pretty good results now out of Alcon and Ionics in terms of sequential growth and deceleration in your business. Can you just talk about what's going on with AMO specifically maybe the upcoming meeting will give you good opportunity to make more of an impact there? And then just on the LASIK business your recent agreement with Zeiss in terms of the licensing fees for their procedure on your femtosecond. Any plans to go after any of these other companies, as there are a couple of other players in this market? Thanks.

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

Well let's talk about... again I haven't had a change to see but I think what we've probably seen from our competitors is that Crystal Lens as I said has done a very good job and I think it speaks to the point that practitioners have been willing to accept the little less and range of vision in exchange for the less halo and glare in the United States. Outside the United States that's non existence, because it's just the difference in the marketplace. So I think that that's what's helped that. And as that surgeon that we were hoping that was going to adopt now, like the surgeon that has adopted earlier, we have got a strong penetration and continue to grow with the surgeons that adopted it early.

Now I think what our other competitors probably have been able to do is enhance some of the shares they have lost because of some additions that they had to the product line. I think that's trial basis, and we will need to see if it's sustainable. But I think the key here is, that's what's Tecnis Multifocal provides. It's clear that we have that capability and that's why you see in the outside of United States. I think practitioners are trialing new products and that's always good because it keeps them involved in the marketplace. So for us, we are still penetrating... we are still growing with the guys that we wanted. We are just not growing with the guys that are little slower to adopt to some of this technology.

Now with regards to the Zeiss, yes we license that again. We own the real estate and again we will continue to own the real estate and that's the key number one. But if anybody makes a decision to take another femtosecond laser, well will... from Zeiss we will take advantage of that opportunity from a royalty standpoint. I don't comment on what we are doing with other competitors. But again, the key point here is that's not a strategy. That's just the nice... little nice to have. The key here is we have been able to buy real estate. You have a clear superiority with the IntraLase femtosecond laser. So though... that's where we are focusing all of our efforts.

**Unidentified Analyst**

Okay great, and then just one question for Randy. Looks like the mostly the debt doesn't come due or payable until 10-15 years from now. Any chance you push back the debt pay-down a little bit to get reinvestment in the rest of the business. Thanks a lot. I really appreciate it.

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

I think given our capital structure right now, we do have a bank borrowing both still have a little under the revolver and we still have the term loan. So there is... an amortization schedule accompanying with both, but on the balance of the debt, certainly maturities are well out into the future with a lot of the convertible debt. But as we have indicated in the past we think de-leveraging and certainly addressing not only the revolver but clearly the term loan is something we'd been doing in the near term just to get our total debt to capitalization down to a level of, where we're more comfortable with. Again we feel very comfortable with going to next year that cash flow and the availability of free cash flow should go up significantly and allow us to start fairly significant de-leveraging in the second half of next year.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Next question operator?

**Operator**

And your next question comes from the line of Lawrence Keusch with Goldman Sachs.

**Lawrence Keusch - Goldman Sachs**

Hi good morning guys. Jim I was hoping that you might talk a little bit about the laser vision correction business which obviously continues to be very strong business for you. If you look to next year, and assuming that the U.S. economy is weaker than it is currently. I suppose that you are going to continue focus on the OUS for the, for growth. And I just was thinking about what sort of resources will you continue to push outside of the U.S to build that business?

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Well I am still quite pleased about the U.S. and we are continuing to make tremendous inroads in the U.S. and clearly been able to demonstrate growing market share in our relatively flat market. So let me address to the U.S. and let me address the economy, and then we will talk about OUS which again I am very pleased about. I think as you said it correctly this is three quarters in a row now where we have clearly outpaced what most people expected in our laser vision correction franchise, and that's tied to the technology. And even last quarter people had concerns about the economy. In discussions with individual practitioners as well as discussions with chains, people will pay for a procedure like LASIK because of the opportunities. The key will be what they expect, what doctors and chains will do in their marketing budgets?

What we... what I have seen and what you will see further is that I know many of the chains are... have doubled their marketing expense which increased awareness and decreased its sphere. And then at the same time you've seen a greater share also with the individual practitioners as they are focusing their efforts on making sure that they market directly to that consumer. So yeah are we... that's why I think we are being probably a little conservative on believing that the market will be fairly flat.

Again also positive for us in the U.S. if the market stays flat next year, is to move the custom. Again as we move the custom, we get a higher per procedure fee, its better outcomes, and we get both the IntraLase and femtosecond... IntraLase as well as the customer procedures, and we are going to do as I talked to you about as you will see in the academy some direct to consumer marketing through the practitioners that will kind of enhance our ability to penetrate in the U.S. So I kind of want to make sure I don't throw the U.S. under the bus because even in times of this year when people have thought the economy was going to be issue, we have far outpaced the market so stay conservative with the market being flat, anything uptake is a positive to us and we'll continue to growth.

Outside the United States from a resource standpoint we've employed the resources that was what I think was the positiveness of the integration of our IntraLase. There is not going to be needed resources beyond the typical ones you grow... as you grow with the market. But the key there is

custom convergence because as I said it was about 10% when we started our initiative. Now it's about 20% and that's a real positive. Of course IntraLase femtosecond laser procedure growth, so I don't need more resources, we just need to convert the machines out there to custom capable. There is a lot of machines out there as I mentioned, and what our primary efforts were in international was to convince people that custom was the way to go and that's what we have done. And then of course you have strong emphasis like Optical Express which just continues to steamroll through the OUS market, and we are obviously the number one for both excimer and femto. So it's not an issue of resources, it's an issue of ensuring the people to upgrade to custom.

**Lawrence Keusch - Goldman Sachs**

Okay, that's helpful. And then just a couple of other very quick ones. Again I understand that presbyopia indication, the custom monovision will be helpful on again continuing to push custom mix. But in the just a standard myopia, is it beginning to flatten out a little bit? It looked... didn't look that it was up too much this quarter versus last that's question one. And then question two just thinking longer term strategically, clearly you guys are doing a good job in getting the MPS back on to the market. But you know ultimately that's really not a growth business at the end of the day, and it does ultimately once you get back to whatever your share will be, you will then start to map some of the growth in your other businesses that are growing faster. So I just wanted to again probe you on, how strategic an asset is this to you over the long term not in the near term, but over the long term? And then lastly for Randy I just wondered if you had an after-tax EPS impact of the derivatives losses there just so we can think about that.

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

Let me, let me address. I think what you are trying to say is that the custom mix, which was I think around 64%... as the mix is slowing down. I think you have to be careful here because, candidly it is not slowing down, what's happening is the mix of our business meaning we, chains still do standard like one of the leading chains, LCA. So our mix within that business has actually increased, so it's not that custom is slowing down, it's just the mix within the quarter, of several of the chains that we still do some standard business with. So you understand that point Larry.

**Lawrence Keusch - Goldman Sachs**

Yes I do. That's really helpful.

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

Yes, so that's not slowing down at all. If you took out a chain like that, our custom mix is much higher.

**Lawrence Keusch - Goldman Sachs**

Okay.

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

If you look at... the answer to your question about the contact lens care, again the most unfortunate thing about the recall is it just masked overall the eye care strategy. Again look at the influencer. The influencer in our overall refractive choice continues to be the MD associated with strong a optometric drive. The optometrist plays a very important role in helping drive not only obviously lenses and lens care but they can help drive LASIK and intraocular lenses. I think to an earlier point, can't remember who asked me the question, the OD plays a very important role. But equally important is the patient in this marketplace. As I've said in the past the patient who wears contact lenses is more apt to have LASIK than a patient who doesn't wear contact lenses. So if we can get those patients and understand those patients and get their information we can help drive the LASIK custom and femtosecond LASIK opportunity. In addition, as I mentioned dry eye, the optometrist you see about 4 times the amount of patients in a typical day than an ophthalmologist. And that patient does have dry eyes so that helps as well.

And then just strictly looking at it from a financial prospective, the eye care business has a strong financial underpinning in this organization for the amount of money you have to invest interest this business and the returns is fairly low. And so I love that business from that standpoint because it helps. You then look at outside the United States where the market is growing and our position is much higher because of the... where we were coming out of the spin. That continues to do extremely well. So I think it's a complement of all those today and in the future. And I think we probably wouldn't be asked this question if we didn't have the recall. So let's get the recall behind. Let's put the product back out there and I think when you see the returns from that, we'll all be pleased.

**Lawrence Keusch - Goldman Sachs**

Yes make sense.

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

Just from a tax perspective on a derivative given where we are with our consolidated tax perspective you really can't come up with a tax impact based on what our expected or current tax rate is. Given it that is a U.S. launch the impact would be on the segment of U.S. is 35% tax rate but that doesn't mean anything in terms of our overall consolidated tax rate. So as I am sure you know you do consolidating income statements with regard to taxes and you come up with just an overall rate as projected for the year. So but the answer to your question is 35% tax rate in the U.S.

**Lawrence Keusch - Goldman Sachs**

Got you. Okay. Thanks very much.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Next question operator.

**Operator**

: Your next question comes from the line of Peter Bye with Jefferies & Company.

**Peter Bye - Jefferies & Company**

Thanks guys. Just a follow-up question on the vision care. I might have missed it but I'd say through the end of the quarter sort of what percentage had you re-launched into your customer base, either in the U.S. and/or globally?

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

Peter as we indicated it in our remarks we've re-launched to about 95% of our pre-recall customer base here in the United States. Outside the United States it's... given the number of markets we are in, Europe right now we're probably about 90% to a little higher than that. Asia Pacific as we indicated we are still getting back in a couple of markets by the end of the year, we'll be at a 100% level and in Japan we are at a 100% level.

**Peter Bye - Jefferies & Company**

That was through the end of the quarter?

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

At the end of the quarter we were probably in the U.S. a little below to 95%, end of the quarter we were probably close to about 85% because as you know there was a couple of customers that we have that we didn't start shipping to until the first week of October.

**Peter Bye - Jefferies & Company**

Right, and just on the other part of your vision care business, ex-MPS COMPLETE, just over the year, have you had trouble modeling it. They have bounced around a tremendous amount, at lot of times up a tremendous amount, other quarters down a tremendous amount. Can you just help us looking forward or what happened in this quarter on that front vis-à-vis Q2 and both in... hydrogen peroxide and the others?

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

I assume you are just saying excluding the entire MPS, or you just want to know what the... where we are with peroxide and then our other revenue.

**Peter Bye - Jefferies & Company**

Yes, just why it bounces around as much as it does I guess, or is there anything different in Q3? What happened in Q2 or you know?

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

I think with the peroxide that's been fairly consistent over the period. I think from Q2 to Q3 I think you did have a bit of the impact of the recall affecting all of our other businesses just in terms of shipping to customers, some of our customers during that period just was ordering less. And that when they order less, that affects the entire portfolio.

**Peter Bye - Jefferies & Company**

Okay.

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

So there has been some volatility with that but as you know over the last 5 or 6 quarters going back to the last year, we rationalized the variety of products a lot of which was in the other category. We have continued to expand our blink portfolio and rewetters. So we have seen some significant rise and as that's entered new markets you have seen some obviously some volatility in that segment. And then clearly with some of the neutralization tablets that's a bit of a choppy market in the way the ordering patterns are in the other.

So from a peroxide perspective, I guess, near term it's just been some of the fall out from the recall but that's relatively speaking been a pretty consistent, in terms of decline. And again we think that will slow in the coming quarters in terms of the year-over-year decline. And then the other businesses with the addition of our Tears next year as you should get a lot more stability between just our Tears business next year and our rewetters business again as the other products become a smaller and smaller portion of the portfolio.

**Peter Bye - Jefferies & Company**

All right thanks. And then I guess with accounting change coming up on the convert, assuming obviously it's going to be looking a lot more just sort of cash earnings on that front. Is there any particular reason why cash earnings and free cash flow aren't going to be similar minus the CapEx?

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

I think as you move into 2008 you are going to see a lot more similarity between the two. So over the... in the future as we move forward you will see a lot more consistency between those two numbers.

**Peter Bye - Jefferies & Company**

Great, and then just one follow. We just noticed in the Bausch filing about the spike in legal expenses related to their recall. Is there anything comments you care to make or can make regarding the outlook for legal expenses in '08 '09 and beyond related to your recall?

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

No, we are fairly comfortable. We haven't seen the number of people filing suit I guess. So we think it's still extremely manageable and we are very comfortable with the level of liability insurance we have on this. So we don't think that there is going to be significant cost associated just on a going forward basis. But again we can keep people updated on a quarterly basis but today we are fairly comfortable with what the outlook is for that.

**Peter Bye - Jefferies & Company**

All right. Great, thanks guys.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Thank you. Next caller or question operator?

**Operator**

: And your next question comes from the line of Mark Mullikin with Piper Jaffray.

**Mark J. Mullikin - Piper Jaffray**

Good morning. How confident are you in getting FDA approval of the dry eye product in time for an early '08 launch?

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

You kind of broke out there but I am going to make... did you ask me how confident are we on the getting approval for our dry dye product?

**Mark J. Mullikin - Piper Jaffray**

Yes that's correct.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Done deal, it's already... again remember the reason that is late is not because we don't have approval as we postponed it because of the manufacturing. We are ready to go and launch at the beginning of the next year. It's more from a manufacturing standpoint not from an approval standpoint.

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

We postponed it because of recall.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

I am sorry recall.

**Mark J. Mullikin - Piper Jaffray**

Okay, thank you.

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

We already have MDC numbers, [multiple speakers] with every MDC numbers. So we are ready to go in the spring or excuse me, in first quarter.

**Mark J. Mullikin - Piper Jaffray**

Okay, great. And then it looks like your laser vision correction business in Japan is ramping pretty quickly. First of all is that correct? And if so is that due to the IntraLase acquisition or is something else going on?

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

The answer is yes, it's correct. And it's a combination of both, with very similar to what happened. And then you are right on in that. The IntraLase actually has helped our excimer business. IntraLase has done, has been well accepted into that, and we have been able to also place more excimer units. So it's been a win-win for both of us. So you are right Japan is doing extremely well. We will continue to do extremely well and what I like about Japan is, it's a very fast moving market, and very high prices and we have the established base.

**Mark J. Mullikin - Piper Jaffray**

Thank you.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Next question operator.

**Operator**

Your next question comes from the line of Steve Willoughby with Cleveland Research.

**Steve Willoughby - Cleveland Research**

Hi good morning. Quick question on the multifocal IOLs. Given your earlier comments, just wondering, what you thought of your previous guidance of \$60 million in revenue this year and then for the product going into 2008, relative to your revenue guidance?

**Richard A. Meier - Chief Operating Officer and Chief Financial Officer**

I think what we... it's obviously we believe that it will be lower probably going to be somewhere in the mid-50s range. But again we are not changing guidance because again unlike other things in the past we have been able to manage the situation with strong performance in other areas especially outside the United States with refractive IOLs. We haven't given any, and candidly the way to look at it for us is procedures because as I said earlier, what we have noticed is some of our independent practitioners have shifted the way and done more LASIK with us than refractive IOL practices. So for us to look at it we look at total procedures. Again if I can get a person on a custom, IntraLase I win, if I can get him on ReZoom in the United States, we win and if we can get him on a Tecnis Multifocal, and I will tell you outside the United states, though we continue to see very strong growth as evidenced by our numbers.

**Steve Willoughby - Cleveland Research**

That makes sense. And then just my other question was on the Healon B approval. You said some time in 2008, any idea if that's early, late.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Mid to latter part of '08.

**Steve Willoughby - Cleveland Research**

Okay. Thank you.

**Operator**

And your next question comes from the line of Louise Chen with Morgan Stanley.

**Louise Chen - Morgan Stanley**

Hi, a few questions. First off with respect to LCA Vision I know you are in potential discussions with them about the femtosecond laser. Can you give an update on that? And then secondly just on the MPS solution, sort of a next generation solution, what kind of discussions have you had with the FDA and how are they thinking about changing their guidelines for MPS solutions going forward?

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Well let me talk about the LCA. As you know over the past six months LCA has been conducting clinical testing, and I think somewhere between 8 and 12 with their outlets determining the IntraLase technology. It is our understanding that the... it is nearly complete, and we believe based on the compelling benefits of the technology we are quite comfortable on a favorable result. But we will leave that up to the LCA team to advise you as we go forward.

If you look at the... from an FDA standpoint on lens care, obviously I think all of us in the industry are working. We are obviously spending time with the FDA as we go through our different product lines as well as our eye care product lines. I can't, couldn't begin to tell you, I'll think anybody could begin to tell you what their new guidelines or if there are any going to be any guidelines. Again if you look at it... if the main issue is acanthamoeba, no one bottle today does kill acanthamoeba and we doubt very much one does. Now of course if you rub-and-rinse you have a greater chance of reducing the implications of acanthamoeba. So I think it depends on what's the standards of the bugs that they want to have on the indication and from there, then what are standards going to be required for a one bottle. I don't think there is going to be any change to peroxide but on the one bottle systems Louise I think it's going to be primarily what organisms are they going to look for to have completely disinfective from that end. Okay.

**Louise Chen - Morgan Stanley**

Thank you.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

Operator we have time one more question.

**Operator**

Yes and your last question comes from the line of Andrew Swanson with Citi.

**Andrew Swanson - Citigroup**

Thanks very much. If we look back may be year and half you had a 25% plus operating margin target out there and obviously the business is going through some evolutions in intervening time. But is that still a long term target that makes sense for your business as today and any evidence that you can give us that you are making significant progress toward that target? I know you talked about 20% target for next year but is the cost base at a point where this could ultimately be a 25 plus percent operating margin business? Thanks.

**James V. Mazzo - Chairman of the Board, President and Chief Executive Officer**

I think Andrew we have talked about that and that's obviously always a goal as we can continue. If you take away some of the... if you take away the recall you could see what we've been able to do in the other businesses. We've had now four consecutive quarters of tremendous growth in that area. Put the eye care business back into there and based on the operating margins if that can provide obviously our goals are to get in the 20% plus range, so very realistic as we move forward. So I think that the product line we have with the mix of the type of product line if you go 18 months ago to your point think about the mix of the businesses we had. We had an older technological IOL line. We had no femtosecond laser. Our LASIK was primarily U.S. not OUS. no custom and we didn't have some of the innovative intraocular lenses that we go forward with. So putting the eye care recall to the line those are in place now, and then as Randy said we'll relaunch it and will get... and the answer is we'll get right to those operating margins. Yes, so the answer is yes. Long term.

All right operator, I want to thank everybody again. As Sheree talked about we have a meeting at the academy hopefully you can attend you'll see a lot of some of the new technologies that we've talked about today and always a good audience with around the sectors that we compete with. So I look forward and I thank very much for your time today.

**Operator**

Thank you. This concludes today's AMO's third quarter 2007 earnings conference call. You may now disconnect.

**Copyright policy:** All transcripts on this site are copyright Seeking Alpha. However, we view them as an important resource for bloggers and journalists, and are excited to contribute to the democratization of financial information on the Internet. (Until now investors have had to pay thousands of dollars in subscription fees for transcripts.) So our reproduction policy is as follows: **You may quote up to 400 words of any transcript on the condition that you attribute the transcript to Seeking Alpha and either link to the original transcript or to [www.SeekingAlpha.com](http://www.SeekingAlpha.com).** All other use is prohibited.

THE INFORMATION CONTAINED HERE IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL, CONFERENCE PRESENTATION OR OTHER AUDIO PRESENTATION, AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE AUDIO PRESENTATIONS. IN NO WAY DOES SEEKING ALPHA ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S AUDIO PRESENTATION ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

Copyright © 2008 CNET Networks, Inc. All Rights Reserved.