

ADVANCED MEDICAL OPTICS INC
Form 11-K
June 29, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 001-31257

A. Advanced Medical Optics, Inc. 401(K) Plan

(Full title of the Plan and address of the Plan, if different from that of the issuer named below)

B. Advanced Medical Optics, Inc.

1700 E. St. Andrew Place, Santa Ana, California 92705

(Name of the issuer of the securities held pursuant to the Plan and the address of its principal executive office)

Advanced Medical Optics, Inc.

401(k) Plan

Financial Statements and Supplemental Schedule

December 31, 2005 and 2004

Advanced Medical Optics, Inc.

401(k) Plan

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December 31, 2005 and 2004

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Exhibit 23

Consent of Independent Registered Public Accounting Firm

* Other schedules required by Section 2520.103-10 of the Department of Labor Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of

Advanced Medical Optics, Inc. 401(k) Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of Advanced Medical Optics, Inc. 401(k) Plan (the "Plan") at December 31, 2005 and 2004, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) at December 31, 2005 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP

Orange County, California

June 29, 2006

Advanced Medical Optics, Inc.

401(k) Plan

Statements of Net Assets Available for Plan Benefits

December 31, 2005 and 2004

| | 2005 | | 2004 | |
|--|-------------|-------------|-------------|------------|
| Assets | | | | |
| Investments, at fair value | \$ | 111,941,276 | \$ | 94,073,548 |
| Employer contributions receivable | | 3,604,217 | | 2,856,739 |
| Total assets | | 115,545,493 | | 96,930,287 |
| Net assets available for plan benefits | \$ | 115,545,493 | \$ | 96,930,287 |

The accompanying notes are an integral part of these financial statements.

Advanced Medical Optics, Inc.**401(k) Plan****Statements of Changes in Net Assets Available for Plan Benefits**

For the Years Ended December 31, 2005 and 2004

| | 2005 | 2004 |
|---|----------------|---------------|
| Additions to net assets | | |
| Investment income | | |
| Net appreciation in fair value of investments | \$ 7,692,947 | \$ 14,098,017 |
| Interest | 122,781 | 109,933 |
| Dividends | 2,954,132 | 1,625,778 |
| Other (expense)/income | | (28,686) |
| Total investment income | 10,769,860 | 15,805,042 |
| Contributions | | |
| Participant contributions | 6,589,800 | 4,802,427 |
| Employer contributions | 6,021,591 | 4,648,979 |
| Rollover contributions | 1,063,725 | 833,875 |
| Total contributions | 13,675,116 | 10,285,281 |
| Transfers from other plans | | 17,799 |
| Total additions | 24,444,976 | 26,108,122 |
| Deductions from net assets | | |
| Benefits paid to participants | (5,813,304) | (2,749,406) |
| Administrative expenses | (16,466) | (14,351) |
| Total deductions | (5,829,770) | (2,763,757) |
| Net increase in assets | 18,615,206 | 23,344,365 |
| Net assets available for benefits | | |
| Beginning of period | 96,930,287 | 73,585,922 |
| End of period | \$ 115,545,493 | \$ 96,930,287 |

The accompanying notes are an integral part of these financial statements.

Advanced Medical Optics, Inc.

401(k) Plan

Notes to Financial Statements

December 31, 2005 and 2004

1. Description of the Plan

The following description of the Advanced Medical Optics, Inc. 401(k) Plan (the Plan) is provided for general information purposes only. Effective June 29, 2002, Advanced Medical Optics, Inc. (AMO or the Company) established the Plan in connection with the spin-off of the Company from Allergan, Inc. (Allergan). Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution retirement plan sponsored by the Company that qualifies as a profit sharing and deferred savings program. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan is qualified under Sections 401 (a) and (k) of the Internal Revenue Code of 1986. Participation in the Plan is available to employees of the Company who have met certain eligibility requirements, described below.

Eligibility

Eligible individuals are all United States and Puerto Rico-based payroll employees, other than:

- (1) Employees covered by a collective bargaining agreement unless the agreement provides for coverage under the Plan;
- (2) Employees who are leased employees;
- (3) Employees who are nonregular manufacturing site transition employees; and
- (4) Individuals who perform services under a written or verbal agreement that classifies them as independent contractors or that otherwise contain a waiver of participation in the Plan, regardless of such individual's employment status under common law.

Plan Administration

The Plan is administered by the AMO Corporate Benefits Committee (the Committee). The Committee has authority, responsibility and control over the management of the Plan. Members of the Committee are appointed by the Board of Directors of the Company and are currently employees of the Company. Effective October 16, 2003, J.P.Morgan/American Century (Trustee/Record Keeper) serves as trustee of the Plan assets and provides record keeping services for the Plan.

Contributions

The Plan allows tax deferred contributions intended to qualify under the applicable laws of the United States Internal Revenue Code (IRC). Eligible participants may voluntarily elect to contribute pre-tax and/or after-tax contributions up to 50% of their eligible annual compensation within certain limitations. Before-tax dollars are limited to the lesser of 20% of defined compensation or \$14,000 and \$13,000 for the years ended December 31, 2005 and 2004, respectively, under provisions 401(k) and 402(g) of the IRC. The Company matches the first 8% of the participant's annual eligible compensation contributed to the Plan at the rate of 50 cents for each contributed dollar.

The Plan includes a profit sharing feature. At the end of each plan year, an annual profit sharing contribution is allocated to the accounts of all eligible employees. Employees are eligible if employed as of the last day of the Plan year, which is December 31; or, if employment terminates during the Plan year because of disability, death or retirement at age 65 or older. The profit sharing contribution formula is weighted based on age, credited service and pay as of the last day of the Plan year.

Participant Accounts

Each participant's account is credited with the participant's contributions, the Company's matching and profit sharing contributions and the allocation of the participant's share of the Plan's net earnings and losses, net of certain investment management fees. Allocations are based on participant account balances, as defined.

Vesting

Participant contributions plus actual earnings thereon are fully vested at all times. Vesting in Company contributions plus actual earnings thereon is based on years of continuous service. A participant vests 100% in Company matching contributions after three years of credited service. A participant vests in profit sharing contributions in annual increments of 20% and, therefore, is 100% vested after five years of credited service. On termination of service due to death, disability or attainment of normal retirement age (65) or if a change in control as described in the Plan document occurs, a participant shall become fully vested in the Company's matching and profit sharing contribution.

Investment Options

At December 31, 2005, a participant may direct contributions in any of the following investment options:

Collective Trust Funds

American Century Stable Asset Fund Funds are invested in a diversified portfolio of high-quality investments issued by major financial institutions.

Mutual Funds

American Century Strategic Allocation Fund: Conservative Funds are invested in a diversified mix of stocks, bonds and money market instruments.

American Century Strategic Allocation Fund: Moderate Funds are invested in a diversified mix of stocks, bonds and money market instruments.

American Century Strategic Allocation Fund: Aggressive Funds are invested in a diversified mix of stocks, bonds and money market instruments.

American Century Ultra Fund Funds are invested in larger U.S. companies with market capitalization in excess of \$5 billion.

American Century Small Cap Value Fund Funds are invested in equity securities of companies with smaller market capitalizations that fund management believes to be undervalued at the time of purchase.

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American Funds EuroPacific Growth Fund Funds are invested in securities of issuers located in Europe and the Pacific Basin.

Barclays Global Investors S&P 500 Fund Funds are invested in large and medium capitalization U.S. companies included in the Standard & Poor's 500 Index.

Dodge & Cox Stock Fund Funds are invested in equity securities of companies that fund management believes to be undervalued at the time of purchase but have a favorable outlook for long-term growth.

Franklin Small-Mid Cap Growth Fund Funds are invested in equity securities of small to medium companies that have market capitalizations not exceeding \$8.5 billion at the time of investment.

Common Stock Funds

AMO Stock Fund Funds are invested in Company common stock.

Allergan, Inc. Stock Fund Funds are invested in Allergan, Inc. common stock. Effective with the inception of the Plan, participants may no longer elect that contributions or dividends be invested in the fund, nor may they transfer any existing account balances into the fund.

Bond Fund

PIMCO Total Return Fund Funds are invested primarily in debt securities, including U.S. government securities, corporate bonds, and mortgage-related securities.

Self Managed Funds

JP Morgan Invest This is a brokerage option that allows participants to invest in a variety of mutual funds, publicly traded stocks and fixed-income securities.

Participants have the right to elect investment options upon enrollment or re-enrollment into the Plan. Additionally, participants may elect to change their investment options and transfer their account balances among the different investment funds. Each participant's account is charged for the participant's withdrawals and credited for the participant's contributions, Company contributions and allocation of fund earnings and losses. The earnings or losses of each of the funds are allocated daily to the individual accounts of participants based on their relative interest in the fair value of the assets held in each fund, except for dividends and unrealized appreciation (depreciation) on the common stock of the Company and Allergan, Inc. which is allocated based upon the number of shares held in the individual accounts of participants.

Payment of Benefits

Participants become entitled to payment of the total value of their accounts at the time of termination (if fully vested), attainment of age 59½, permanent and total disability, or death. A participant may elect to receive either a lump-sum amount equal to the value of his or her account, periodic installments or transfer the balance in his or her account to another qualified plan. Vested accounts of \$1,000 or less (\$5,000 or less for payments made prior to March 28, 2005) have the option of being paid in a lump-sum amount or a direct rollover.

Prior to age 59½, employee before-tax contributions may be withdrawn in the event of financial hardship, and after the withdrawal of the value of employee after-tax contributions and employer contributions. Hardship is determined pursuant to the provisions of the IRC. Upon making a hardship withdrawal, a participant may not make additional pre-tax contributions for a period of 6 months from the date of the withdrawal payment. Participants may withdraw employee after-tax contributions during employment.

Participant Loans

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loan terms range from one to five years or up to 15 years for the purchase of a primary residence. The loans are collateralized by the balance in the participant's account and bear interest at prime plus 1% as determined on the date of the loan application. The interest rate is fixed for the term of the loan. Principal and interest are paid through payroll deductions each pay period.

Administrative Expenses

Certain expenses incurred in the administration and operations of the Plan are paid from the assets of the Plan. During the years ended December 31, 2005 and 2004, administrative expenses of \$248,000 and \$172,000, respectively, were paid by the Company on behalf of the Plan.

Forfeitures

A participant's nonvested balance is forfeited at the time of termination of employment. Forfeitures are used by the Company to offset future contribution requirements. At December 31, 2005 and 2004, unallocated forfeitures totaled \$126,658 and \$52,766, respectively.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Plan have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Investment Valuation and Income Recognition

Investments are stated at fair value. Investments in common stock are valued based on quotations obtained from the New York Stock Exchange. Investments in mutual funds are valued based on quotations obtained from the National Association of Security Dealers Automated Quotations (NASDAQ). Investments in collective trust funds are valued based on the net asset value reported by the fund. Participant loans are valued at the unpaid principal amount of the loan, which approximates fair value.

Purchases and sales of securities are reflected on a trade-date basis. Interest income is recorded on an accrual basis. Dividend income is recorded on the ex-dividend date. The Plan presents in the statement of changes in net assets available for benefits the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains or losses and unrealized appreciation (depreciation) on those investments.

Payment of Benefits

Benefits to participants are recorded when paid.

Use of Estimates

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 and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risks and Uncertainties

The Plan provides for various investment options in any combination of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits and the statement of changes in net assets available for benefits.

3. Investments

Investments representing 5% or more of the Plan's net assets are summarized as follows:

| | 2005 |
|--|---------------|
| AMO Common Stock | \$ 21,464,405 |
| American Century: Stable Asset Fund | 16,798,461 |
| Dodge & Cox Stock Fund | 12,327,891 |
| Allergan, Inc. Common Stock | 20,777,275 |
| American Century Strategic Allocation: Moderate Fund | 8,740,569 |
| American Century Small Cap Value Fund | 5,796,300 |
| American Funds Euro Pacific Growth Fund | 7,256,374 |
| | 2004 |
| AMO Common Stock | \$ 20,120,076 |
| American Century: Stable Asset Fund | 15,032,597 |
| Dodge & Cox Stock Fund | 8,834,751 |
| Allergan, Inc. Common Stock | 20,862,003 |
| American Century Strategic Allocation: Moderate Fund | 6,156,566 |

For the years ended December 31, 2005 and 2004, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the period) appreciated in value by \$7,692,947 and \$14,098,017, respectively, as follows:

| | 2005 | 2004 |
|------------------------|--------------|---------------|
| Common stock | \$ 6,162,690 | \$ 10,886,803 |
| Mutual funds | 1,530,493 | 3,211,666 |
| Collective trust funds | (236) | (452) |
| | \$ 7,692,947 | \$ 14,098,017 |

4. Distribution Priorities upon Termination of the Plan

The Company anticipates and believes the Plan will continue without interruption but reserves the right under the Plan to reduce, suspend or discontinue the Plan. Upon termination of the Plan by the Company, the accounts of all affected participants shall become 100% vested and nonforfeitable without regard to the years of service of such participants.

5. Tax Status of the Plan

The Company received a favorable determination letter on April 14, 2003 in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the IRC.

The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

6. Related Parties

At December 31, 2005 and 2004, the Plan held units of participation in certain collective trusts and mutual funds of the Trustee/Record Keeper and held shares of common stock of the Company. These transactions are allowable party-in-interest transactions under ERISA and the regulations promulgated thereunder.

Advanced Medical Optics, Inc.

401(k) Plan

EIN: 33-0986820 PN: 001

Schedule H line 4i Schedule of Assets (Held at End of Year)**

December 31, 2005

| (a) | (b) Identity of Issue, Borrower, Lessor or Similar Party | (c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value | (d) Cost** | (e) Current Value |
|-----|---|---|---------------|-------------------------|
| * | American Century | Stable Asset Fund | \$ | \$ 16,798,461 |
| * | American Century | Strategic Allocation: Conservative Fund | | 961,177 |
| * | American Century | Strategic Allocation: Moderate Fund | | 8,740,569 |
| * | American Century | Strategic Allocation: Aggressive Fund | | 1,936,075 |
| | Pimco | Total Return Fund | | 1,470,705 |
| * | American Century | Small Cap Value Fund | | 5,796,300 |
| * | American Century | Ultra Fund | | 4,677,311 |
| | Dodge & Cox | Stock Fund | | 12,327,891 |
| | Barclay s Global Investors | S&P 500 Fund | | 2,938,532 |
| | American Funds | Euro Pacific Growth Fund | | 7,256,374 |
| | Franklin | Small-Mid Cap Growth - Fund A | | 3,797,951 |
| * | Advanced Medical Optics, Inc. | 513,502 shares of common stock | | 21,464,405 |
| | Allergan, Inc. | 192,453 shares of common stock | | 20,777,275 |
| * | JP Morgan Invest | Brokerage | | 655,881 |
| * | Participant loans | Varying maturity dates with interest rates ranging from 5.00% to 10.50% and maturities ranging from 1 to 15 years | | 2,342,369 |
| | | | \$ | \$ 111,941,276 |

*Party-in-interest for which a statutory exemption exists.

**Under ERISA, an asset held for investment purposes is any asset held by the Plan on the last day of the Plan's fiscal year or acquired at any time during the Plan's fiscal year and disposed of any time before the last day of the Plan's fiscal year, with certain exceptions. Cost information may be omitted with respect to participant-directed investments.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the administrator of the Plan has duly caused this Annual Report to be signed on its behalf by the undersigned thereunto duly authorized.

ADVANCED MEDICAL OPTICS, INC. 401(k) PLAN

Dated: June 29, 2006

By: /s/ DIANE W. BIAGIANTI
Diane W. Biagianti
Member of the Corporate Benefits Committee