VISX INC
Form 10-Q
May 09, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2005

or

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

For the transition period from _____ to _____

Commission File Number 1-10694

VISX, INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	**06-1161793**
(State or other Jurisdiction of Incorporation or Organization)	*(IRS Employer Identification No.)*

3400 Central Expressway, Santa Clara, California 95051-0703

(Address of principal executive offices) (Zip Code)
(Registrant s telephone number, including area code): **(408) 733-2020**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes þ No o

Total number of shares of common stock outstanding as of April 22, 2005: 50,103,985.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Interim Financial Statements

VISX, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
(In thousands, except share and per share amounts)

	March 31, 2005 (unaudited)	December 31, 2004 (unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 17,353	$ 14,536
Short-term investments	143,084	123,872
Accounts receivable, net of allowance for doubtful accounts of $1,902 and $3,895 respectively	34,965	31,584
Inventories	13,211	14,255
Deferred tax assets and prepaid expenses	21,568	22,219
Total current assets	230,181	206,466
Property and Equipment, net	3,784	3,990
Long-Term Deferred Tax and Other Assets	11,733	12,367
Total Assets	$ 245,698	$ 222,823
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 6,537	$ 3,588
Accrued liabilities and other current liabilities	44,277	40,579
Total current liabilities	50,814	44,167
Stockholders Equity:		
Common stock: $.01 par value, 180,000,000 shares authorized; 64,990,089 shares issued at March 31, 2005 and December 31, 2004, respectively	650	650
Additional paid-in capital	199,951	200,209
Treasury stock, at cost 14,936,136 and 15,066,708 shares, at March 31, 2005 and December 31, 2004 respectively	(240,395)	(242,496)
Accumulated other comprehensive loss	(361)	(67)

Retained earnings	235,039	220,360
Total stockholders equity	194,884	178,656
Total Liabilities and Stockholders Equity	$ 245,698	$ 222,823

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

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VISX, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three months ended March 31,	
	2005	2004
	(unaudited)	
Revenues:		
License and other revenues	$ 37,647	$ 32,487
System revenues	7,668	6,076
Service and parts revenues	6,024	5,242
Total revenues	51,339	43,805
Costs and Expenses:		
Cost of license and other revenues	1,123	980
Cost of system revenues	7,154	5,291
Cost of service and parts revenues	4,262	3,598
Selling, general and administrative	10,510	9,757
Research, development and regulatory	5,172	5,044
Total costs and expenses	28,221	24,670
Income From Operations	23,118	19,135
Interest and other income	890	328
Income Before Provision For Income Taxes	24,008	19,463
Provision for income taxes	9,329	7,707
Net Income	$ 14,679	$ 11,756
Earnings Per Share:		
Basic	$ 0.29	$ 0.24
Diluted	$ 0.28	$ 0.23
Shares Used For Earnings Per Share:		
Basic	50,007	48,672

Diluted	51,749	50,433

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

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VISX, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(In thousands)

	Three months ended March 31,	
	2005	2004
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 14,679	$ 11,756
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,033	2,186
Provision for doubtful accounts receivable	234	85
Increase (decrease) in cash flows from changes in operating assets and liabilities:		
Accounts receivable	(3,620)	(293)
Inventories	(1,575)	(1,319)
Deferred tax assets and prepaid expenses	(111)	4,272
Long-term deferred tax and other assets	493	985
Accounts payable	2,949	162
Accrued liabilities and other current liabilities	3,691	2,945
Net cash provided by operating activities	20,773	20,779
Cash flows from investing activities:		
Capital expenditures	(313)	(540)
Purchases of available for sale securities	(24,650)	(18,094)
Proceeds from maturities of available for sale securities	5,181	2,705
Net cash used in investing activities	(19,782)	(15,929)
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,843	2,476
Repurchases of common stock		(8,118)
Net cash provided by (used in) financing activities	1,843	(5,642)
Effect of exchange rate changes on cash and cash equivalents	(17)	8
Net increase (decrease) in cash and cash equivalents	2,817	(784)
Cash and cash equivalents, beginning of period	14,536	24,895
Cash and cash equivalents, end of period	$ 17,353	$ 24,111

Supplemental Cash Flow Information:				
Cash paid for income taxes	$	1,637	$	959
Non-cash investing activities:				
Inventory transferred to deferred costs under operating leases	$	2,612	$	1,203

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

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VISX, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2005
(Unaudited)

1. Significant Accounting Policies

Basis of Presentation. We prepared our Condensed Consolidated Interim Financial Statements in conformity with Securities and Exchange Commission rules and regulations. Accordingly, we condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. Please read our 2004 Annual Report on Form 10-K to gain a more complete understanding of these interim financial statements.

We included in these interim financial statements all adjustments (consisting primarily only of normal recurring adjustments) that in our opinion are necessary to present fairly our results for the interim period. Our interim financial statements have not been audited.

Earnings Per Share. Basic earnings per share (EPS) equals net income divided by the weighted average number of common shares outstanding. Diluted EPS equals net income divided by the weighted average number of common shares outstanding plus dilutive potential common shares calculated in accordance with the treasury stock method. All amounts in the following table are in thousands, except per share data, and are unaudited.

	Three Months Ended March 31,	
	2005	2004
Net income	$ 14,679	$ 11,756
Basic earnings per share		
Net income	$ 14,679	$ 11,756
Weighted average common shares outstanding	50,007	48,672
Basic Earnings Per Share	$ 0.29	$ 0.24
Diluted earnings per share		
Net income	$ 14,679	$ 11,756
Weighted average common shares outstanding	50,007	48,672
Dilutive potential common shares from stock options	1,742	1,761
Weighted average common shares and dilutive potential common shares	51,749	50,433

Diluted Earnings Per Share	$ 0.28	$ 0.23

Options to purchase 1,622,258 and 2,172,000 shares with a weighted average exercise price of $37.37 and $33.80, during the three-month periods ended March 31, 2005 and 2004, respectively, were excluded from the computation of diluted EPS because the options exercise prices were greater than the average market price of our common stock during these periods and would have been anti-dilutive.

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Stock-Based Employee Compensation. We account for stock-based employee compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and Financial Accounting Standards Board (FASB) Interpretation No. 44 (FIN 44), Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB No. 25 and comply with the disclosure provisions of Statement of Financial Accounting Standards No. 148, Accounting For Stock-Based Compensation Transition and Disclosure (SFAS 148). In accordance with APB 25 and FIN 44, we record no stock-based employee compensation cost in our net income because (1) all options granted under our stock option plans have an exercise price equal to the market value of the underlying common stock on the date of grant and (2) stock purchased through our Employee Stock Purchase Plan is priced at 85% of the fair market value of the stock on the first day of a two-year offering period or as of the end of each six month purchase segment of a two year offering period, whichever is lower. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), to stock-based employee compensation (unaudited, in thousands, except per share data).

		Three Months Ended March 31,	
		2005	2004
Net Income	As Reported	$ 14,679	$ 11,756
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(1,437)	(1,947)
Net Income	Pro Forma	$ 13,242	$ 9,809
Basic Earnings Per Share	As Reported	$ 0.29	$ 0.24
	Pro Forma	0.26	0.20
Diluted Earnings Per Share	As Reported	$ 0.28	$ 0.23
	Pro Forma	0.26	0.20

For purposes of computing pro forma net income, we estimate the fair value of each option grant and employee stock purchase plan purchase right on the date of grant using the Black-Scholes option pricing model. The assumptions used to value the option grants and purchase rights are stated as follows:

	Options granted in the three months ended March 31,	
	2005	2004
Expected life of options (in years)		5.36
Expected life of ESPP rights (in years)	1.25	1.25
Volatility for options		72%
Volatility for ESPP rights	54%	59%
Risk free interest rate for options		2.86%
Risk free interest rate for ESPP rights	2.61%	1.71%
Dividend yield		0.0%

Under the terms of the merger agreement with Advanced Medical Optics, Inc. (AMO), we are precluded from granting stock options to our employees or to other parties. Accordingly, there were no options granted under our stock option plans during the three month period ended March 31, 2005. The weighted average fair value of options granted under our stock option plans during the three month

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period ended March 31, 2004 was $12.34. The weighted average fair value per share of options granted under the ESPP during the three month periods ended March 31, 2005 and 2004 was $9.31 and $4.30, respectively.

These pro forma amounts may not be representative of the effects on net income in future years following our adoption of Statement of Financial Accounting Standards No. 123(R), Share Based Payment (SFAS No. 123(R)) as options vest over several years and additional awards are generally made each year.

2. Segment Reporting

Segments. Statement of Financial Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information, (SFAS No. 131) established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or chief operating decision making group, in deciding how to allocate resources and in assessing performance. Our Chief Executive Officer is our chief operating decision maker. Our business is focused on one operating segment, products and procedures to improve people s vision with laser vision correction. All of our revenues and profits are generated through the sale, licensing, and service of products for this one segment.

Export Revenues. Export revenues accounted for 17% and 14% of total revenues for the three month periods ended March 31, 2005 and 2004 respectively. We did not generate export revenues to any country that equaled or exceeded 10% of our total revenues for either of the three month periods ended March 31, 2005 and 2004. In the following table we have presented our export revenues by geographic region (in thousands):

	Three months ended March 31,	
	2005	2004
	(Unaudited)	
Europe	$ 2,119	$ 1,980
Americas (excluding the United States)	827	895
Asia and Other	5,975	3,140
	$ 8,921	$ 6,015

Substantially all of our long-term assets are located in the United States.

Major Customers. A significant portion of our revenues is derived from sales to TLC Vision Corporation (TLC). Sales to TLC and its operating subsidiaries accounted for 16% and 20% of total revenues in the first quarter of 2005 and 2004, respectively. TLC accounted for 23% and 21% of our total receivables at March 31, 2005 and December 31, 2004, respectively. Additionally, Taiwan Hwa-In Corporation, one of our Asian distributors, accounted for 10% and 12% of our total receivables at March 31, 2005 and December 31, 2004, respectively.

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3. Inventories

Components of inventories are as follows (in thousands):

	March 31, 2005 (Unaudited)	December 31, 2004
Raw materials and subassemblies	$ 8,786	$ 9,113
Work-in-process	2,281	2,723
Finished goods	2,144	2,419
	$ 13,211	$ 14,255

4. Comprehensive Income

We report components of comprehensive income in our annual consolidated statements of stockholders equity. Components of comprehensive income (unaudited, in thousands):

	Three Months Ended March 31,	
	2005	2004
Net income	$ 14,679	$ 11,756
Other comprehensive income (net of tax effects) Increase (decrease) in accumulated unrealized holding gains on available-for-sale securities	(257)	58
Change in accumulated foreign currency translation adjustment	(37)	11
Comprehensive income	$ 14,385	$ 11,825

5. Warranty Obligations

Changes in product warranty obligations for the periods ended March 31, 2005 and 2004 are as follows (unaudited, in thousands):

	Three Months Ended March 31,	
	2005	2004
Balance as of the beginning of the period	$ 1,136	$ 1,779
Expense accrued (recoveries recognized)	454	(14)
Cost of services provided	(550)	(419)
Balance as of the end of the period	$ 1,040	$ 1,346

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6. Stockholders Equity

On April 4, 2001, our Board of Directors authorized a stock repurchase program under which up to 10 million shares of VISX common stock may be repurchased. In accordance with this authorization and applicable securities laws, we have repurchased 7.8 million shares on the open market cumulatively through March 31, 2005, at a total cost of $106.8 million. Accordingly, 2.2 million shares remain available as of March 31, 2005 for repurchase under the Board of Directors April 2001 authorization. On May 28, 2003, the Board of Directors authorized the repurchase of an additional 3.5 million shares of VISX stock at a total cost of $63.0 million, all of which were purchased during the quarter ended June 30, 2003. Before repurchasing shares we consider a number of factors including market conditions, the market price of the stock, and the number of shares needed for employee benefit plans. Under the terms of the merger agreement with AMO, we are precluded from repurchasing any of our outstanding common stock on the open market. Accordingly, we did not repurchase any of our common stock in the three month period ended March 31, 2005.

7. New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R). This standard requires expensing of stock options and other share-based payments and supercedes the FASB s earlier rule (the original SFAS 123) that allowed companies to choose between expensing stock options or showing pro forma disclosure only. We currently show the pro forma disclosures in Note 1 to these condensed consolidated interim financial statements. In April 2005, the SEC approved a new rule to delay the effective date of SFAS 123(R) to annual periods that commence after June 15, 2005. We will be required to implement the new pronouncement and begin recording share-based expense at the beginning of the first quarter of fiscal 2006. Although we have not yet determined whether the adoption of the SFAS 123(R) will result in amounts that are similar to the current pro forma disclosures under SFAS 123, we expect the adoption of SFAS 123(R) to have a significant adverse impact on our consolidated operating results.

8. Litigation

On or about November 12, 2004, two putative class action lawsuits were filed in the Superior Court of the State of California, County of Santa Clara, against VISX and the VISX Board of Directors. The cases were captioned William Kinchy vs. VISX, Incorporated, et al., Case No. 104CV030447 and Douglas Shearer vs. VISX, Incorporated, et al., Case No. 104CV030452. On January 27, 2005, the court ordered the two cases consolidated under the Kinchy case. On January 28, 2005, William Kinchy filed an amended complaint that alleges, among other things, that the VISX Board of Directors and certain executive officers breached their fiduciary duties of loyalty and due care by approving the merger agreement with AMO and the merger contemplated by the merger agreement without undertaking sufficient efforts to obtain the best offer possible for stockholders. The complaint further alleges that the consideration to be paid in the merger is unfair and inadequate, and that the defendants breached their fiduciary duties of care, loyalty and candor to VISX s public stockholders in connection with the merger. The complaint seeks an injunction prohibiting VISX from consummating the merger and rights of rescission against the merger and any of the terms of the merger agreement, as well as attorneys fees and costs.

On March 14, 2005, we reached an agreement in principle with plaintiff s counsel pursuant to which plaintiff will release the defendants, as well as AMO and certain VISX agents and affiliates, from all claims that have been brought or could have been brought under state or federal law arising out of or relating to the merger. The settlement agreement remains subject to approval by the Superior Court of the State of California for the County of Santa Clara, which is not expected to be obtained prior to the completion of the merger. Under the agreement in principle, we agreed to make certain additional

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disclosures that have been included in the joint proxy statement/prospectus. In addition, we have agreed that we will not oppose a fee application by plaintiff s counsel of up to $500,000. As of March 31, 2005 we have recorded all costs that we expect to incur in connection with the proposed settlement. The settlement does not contemplate any changes to the merger agreement or the merger.

In or about October 2001, we terminated a Development and Supply Agreement with Aculight Corporation (the Agreement). The Agreement requires that before any party may commence litigation for any controversy or claim arising under the Agreement, such claim must first be submitted to nonbinding mediation. Aculight has corresponded with us concerning a claim that it is owed approximately $1.9 million in cancellation fees by virtue of our termination of the Agreement. We deny that any amounts are owed because Aculight was in breach of certain obligations under the Agreement at the time of termination; Aculight contends that it did not breach any such obligations. Aculight demanded mediation of this dispute pursuant to the Agreement, and in January 2005, we scheduled mediation before Judicial Arbitration and Mediation Services (JAMS) for March 25, 2005. This mediation is currently ongoing with no agreement having yet been reached. While it is not feasible to predict or determine with certainty the final outcome of the mediation, or any lawsuit filed by Aculight if the parties dispute is not resolved by mediation, we believe any such lawsuit would be without merit, and that the mediation or lawsuit would not be likely to give rise to any liability that would materially affect our financial condition or results of operations.

We are involved in various other legal proceedings and disputes that arise in the normal course of business. These matters include product liability actions, contract disputes and other matters. Based on currently available information, we believe we have meritorious defenses to these actions and that resolution of these cases is not likely to have a material adverse effect on our business, financial position or future results of operations.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Report contains forward-looking statements including, but not limited to: our belief that we will begin shipment of Iris Registration in the second quarter of 2005; our belief that our CustomVue procedure represents a new standard in laser vision correction; our belief that ongoing technical advances (including our CustomVue procedure) have the potential to improve a person s vision beyond that which can be obtained with contact lenses or glasses and may increase market acceptance of and demand for laser vision correction surgery; our belief that we have the largest installed base of laser vision correction systems in place worldwide and that we have approximately 60% market share for procedures performed in the United States; our belief that acceleration of the market s acceptance of, and conversion to, our CustomVue procedure, or an increase in the laser vision correction market in general, or our ability to maintain or gain market share, offers the potential for growth in our license revenue; our plan to continue to generate cash from our ongoing business in 2005; our belief that we will continue to investigate areas where we can expand our presence in the refractive surgery market; our belief there will not be a near-term change in our level of capital expenditures; our belief that increased acceptance of laser vision correction by both doctors and patients is essential for our continued growth; our belief that ongoing technical advances will increase the demand for laser vision correction surgery; our belief that approvals for additional types and ranges of refractive disorders from the FDA will expand the potential for growth in procedures, CustomVue adoption and license revenue; our belief that a decline in economic conditions in the United States could result in a decline in the number of laser vision correction procedures performed; our belief that our revenue and profit for 2005 will improve compared to 2004; our belief that operating expenses for 2005 will increase compared to 2004; our target of increasing operating margins to in excess of 40% of revenues; our expectation that we will continue to generate cash from operations; our belief that adoption of our CustomVue procedure in the United States increased due to ongoing improved market acceptance of CustomVue and because of recently obtained FDA approvals for certain CustomVue procedures; our belief that procedure growth resulted from improved consumer confidence and increased interest in laser vision correction surgery; our belief that license and other revenues will be lower during the remainder of 2005 as compared to the first quarter of 2005; our belief that our license revenue will continue to improve in 2005 as compared to 2004; our belief that the lack of long-term follow-up studies, media coverage of selected unfavorable outcomes, and economic uncertainties may impact interest in laser vision correction; our belief that there will be no significant growth in laser system revenues in 2005 and that the sale of WaveScan Systems will be less than in 2004; our belief that service revenues will be lower during the remainder of 2005 as compared to the first quarter of 2005; our belief that our gross margins on license and other revenues will be approximately the same in 2005; our belief that operations will generate cash in 2005 at a level equal to or greater than in 2004; our belief that cash from operations will exceed cash required to fund our working capital and capital equipment needs during the coming twelve months; our belief that the estimates and judgments made regarding future events in connection with the preparation of our financial statements are reasonable; our belief that we do not expect either our methodology or the accuracy of our estimates with regard to our inventory to change significantly in the future; and our belief that the planned merger with AMO will be consummated and our expectation that it will close in the second quarter of 2005; however these outcomes cannot be predicted with certainty. Forward-looking statements are estimates reflecting the best judgment of our senior management, and they involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Please see the section of this Report entitled Risk Factors for a more thorough description of the risks that our business faces. Moreover, we caution you not to place undue reliance on these forward-looking statements, which speak only as of the date they were made. We do not undertake any obligation to publicly release any revisions to forward-looking statements to reflect events or circumstances after the date of this Report or to reflect the occurrence of unanticipated events.

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On November 9, 2004, VISX, Incorporated (VISX) entered into a definitive merger agreement with Advanced Medical Optics, Inc. (AMO). On May 26, 2005, the stockholders of VISX and AMO are scheduled to vote on the proposed merger. Our stockholders are expected to receive 0.552 of a share of AMO common stock and $3.50 in cash for each share of VISX common stock they own at the completion of the merger, but this mixture of AMO common stock and cash is subject to adjustment as more fully described below. Each of our stockholders would receive cash for any fractional share of AMO common stock that the stockholder would otherwise be entitled to receive in the merger after aggregating all fractional shares to be received by the stockholder. Nonetheless, we continue to manage our business separately and our discussions in this Management Discussion and Analysis of Financial Condition and Results of Operations are presented for VISX as a stand-alone entity.

The merger is expected to qualify as a reorganization under the Internal Revenue Code of 1986, as amended. If neither our nor AMO s counsel is able to render an opinion at the completion of the merger that the merger qualifies as a reorganization (based on the mix of cash and stock consideration described above) within the meaning of Section 368(a) of the Internal Revenue Code, then the amount of the cash merger consideration will be reduced and the amount of the stock merger consideration will be increased, in each case to the minimum extent necessary to enable either counsel to render this opinion at the completion of the merger. Based on the number of shares of our common stock outstanding on November 8, 2004, this would occur if the trading price of AMO common stock on the closing date is below approximately $25.37.

In the event of any such adjustment, the overall economic value of the merger consideration issuable and payable for each share of our common stock in the merger as of the closing date will still be calculated based on the trading price of AMO common stock at the closing and therefore will not change. In other words, if an adjustment is made to the mix of cash and stock consideration, the total value of the stock consideration and the cash consideration after any adjustment will still be calculated on the closing date and will be equal to the total value of the stock consideration and the cash consideration prior to the adjustment, but the specific amounts of stock and cash consideration would change. AMO and VISX will not know, however, whether any such adjustment is necessary until immediately prior to the completion of the merger. Subject to stockholder approvals, which we and AMO are in the process of seeking, and other customary closing conditions, we expect the transaction to close in the second quarter of 2005. We believe the planned merger will be consummated, however the outcome cannot be predicted with certainty.

In connection with the proposed merger, AMO has filed a registration statement with the SEC. The definitive joint proxy statement/prospectus included therein was mailed to all holders of our stock on or about April 27, 2005 and contains important information about VISX, AMO and the proposed merger, risks relating to the merger and the combined company, and related matters. We urge all of our stockholders to read the definitive joint proxy statement/prospectus prior to their vote scheduled on May 26, 2005.

Overview

VISX a Delaware corporation organized in 1988, is a worldwide leader in the design and development of proprietary technologies and systems for laser vision correction. Our primary operations are in Santa Clara, CA.

Our products require approval by the Food and Drug Administration (FDA) in the United States and comparable regulatory agency approvals in other countries. Our approvals in the United States and key markets worldwide for laser vision correction cover most types of refractive vision disorders including:

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Nearsightedness;

Farsightedness; and

Astigmatism.

In certain key international markets, our CustomVue procedure is also approved for all of these refractive vision disorders. We obtained FDA approval for our CustomVue procedure for nearsightedness and astigmatism in May 2003 and for CustomVue farsightedness and astigmatism in December 2004. In March 2005, we obtained FDA approval for our CustomVue procedure for mixed astigmatism and for our Iris Registration technology upgrade (Iris Registration). Iris Registration is the first fully automated method of aligning and registering wavefront corrections for CustomVue procedure and is designed to replace the current means of registration, which involves manual marking of the eye to assess rotational movement. We expect to begin shipment in the United States of Iris Registration in the second quarter of 2005.

We sell products worldwide and generate the majority of our revenues and cash through license fees charged for the performance of laser vision correction procedures using the VISX STAR Excimer Laser System (VISX STAR System). The license fee charged for a particular procedure depends on whether the procedure is performed in the United States or internationally, and the type of procedure involved. In the United States, we charge a license fee for our standard procedure and a license fee for our CustomVue procedure that is more than twice the amount charged for our standard procedure. Additionally, we charge a standard price of $10 per procedure for treatment cards. Internationally, for our standard procedure we charge a small price per procedure for the treatment card. For our CustomVue procedure we charge a significantly higher price per procedure.

We believe our CustomVue procedure, which requires use of a VISX Wavescan Wavefront ® System (WaveScan System), represents a new standard in laser vision correction. It enables doctors to identify, measure, and correct imperfections in a patient s eye more precisely than ever before, thus creating the potential for patients to experience better vision than is possible with glasses or contact lenses.

We believe we have the largest installed base of laser vision correction systems, with over 1400 VISX STAR Systems in place worldwide. Market Scope, a refractive surgery market research group, estimated in their most recent report (December 2004) that VISX is the leader in the worldwide market with approximately 30% of worldwide laser placements and that we had approximately 60% market share for procedures performed in the United States in 2004 and have held at least this share since 1997.

Licensing revenues for procedures comprise the majority of our revenue and profit and are predominantly derived from license fees from our United States customers. This has been especially true in recent years as the laser vision correction market has matured and the demand for new hardware systems and upgrades to those systems has declined. Licensing revenues grew 16% in the three month period ended March 31, 2005 compared with the corresponding period in 2004 and generated approximately 97% gross margin on each procedure sale and greater than 90% of our total gross profit. We evaluate this aspect of our business by tracking the following:

Trends in procedures sales; and

Market share for ourselves and our competitors.

Any increase in license fee revenue that results from either an increase in the amount charged for a particular procedure or from an increase in overall procedure volume directly impacts our net income. As a result, our management team is focused on activities that will (i) accelerate the market s acceptance of,

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and conversion to, our CustomVue procedure; (ii) increase the laser vision correction market in general, and (iii) enable us to maintain or gain market share. Progress on any one of these fronts offers the potential for growth in our license revenue.

Collectibility of receivables is the most significant estimate related to the recognition of our revenues. We evaluate our customers for credit worthiness and only recognize revenue if we believe that we have reasonable assurance that amounts will be collectible. Where we are unable to assess credit worthiness at the time of original shipment we defer recognition of the related revenues until collectibility is assured.

We manage our expenses closely and plan to continue to generate cash from our ongoing business operations in 2005. Historically, our primary non-operating use of cash has been to repurchase shares of our common stock. We will also continue to investigate areas where we can expand our presence in the refractive surgery market. This could result in using cash for the acquisition of technology or a company, however, under the terms of the merger agreement with AMO, we are precluded from acquiring a company or authorizing capital expenditures in excess of certain levels. Our capital expenditures have been in the range of $2.2 million to $2.8 million per year in the past five years. We do not expect a near-term change in this level of expenditures. At the conclusion of the merger, certain one time expenses will be incurred that are described in the joint registration statement filed by AMO. We have no long term debt.

Looking to the remainder of 2005, our business is highly leveraged on procedure volume and the conversion to CustomVue procedures. A number of factors, the most material of which are set forth below, could impact our success in 2005 and beyond. Progress on any of these fronts offers the potential for growth in our license revenue:

Demand for our CustomVue procedure. Our CustomVue procedure generates more than double the revenue of our standard procedure and any increase in the conversion to CustomVue directly improves our profits. Clinical data shows that our CustomVue procedure produces superior vision quality compared to standard LASIK eye surgery and results in greater patient satisfaction with night vision.

Market acceptance of laser vision correction. Increased acceptance of laser vision correction by both doctors and patients in the United States and key international markets is essential for our continued growth. Laser vision correction has penetrated approximately 6% of the eligible United States population, and our profitability and continued growth will be largely dependent on increasing levels of market acceptance and procedure growth. We believe ongoing technical advances, such as our Iris Registration technology, the WaveScan Fourier algorithm, and CustomVue procedure, that enhance the quality of patients vision will increase the demand for laser vision correction surgery.

Our ability to obtain additional FDA approvals. We continue to expand the list of FDA approved indications that can be treated by our products. As we receive approvals for additional types and ranges of refractive disorders from the FDA, the pool of eligible laser vision correction candidates increases, thereby expanding the potential for growth in procedures, CustomVue adoption and license revenue.

Our competition. Competition in the laser vision correction market is intense which creates pricing pressure on our products. Additionally, most of our competitors have greater resources and a broader market presence. As a result, the competition to obtain procedure market share is intense.

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The United States economy. We have always charged a license fee for procedures sold in the United States. Therefore, it remains our most significant market for license revenue. As such, economic conditions in the United States impact our license revenue more than global economic conditions. Industry analysts have tracked procedure volume in the United States against economic indicators such as consumer confidence. They have noted a correlation between consumer confidence and the number of laser vision correction procedures performed per quarter. A decline in economic conditions in the United States could result in a decline in the number of laser vision correction procedures performed.

We believe our revenue and profit in 2005 will improve compared to 2004 as a result of various factors, including higher CustomVue adoption and growth in the laser vision correction market in the United States. For 2005, we anticipate that operating expenses will increase compared to 2004 with a target of increasing our operating margins to in excess of 40% of revenues. We expect to continue to generate cash from operations.

Results of Operations

	Three Months Ended March 31,		
($000 s)	2005	2004	Change
License and other revenues	$ 37,647	$ 32,487	*16%*
Percent of total revenues	*73.3%*	*74.2%*	
System revenues	7,668	6,076	*26%*
Percent of total revenues	*15.0%*	*13.9%*	
Service and parts revenues	6,024	5,242	*15%*
Percent of total revenues	*11.7%*	*11.9%*	
Total revenues	$ 51,339	$ 43,805	*17%*

License and Other Revenues

License and other revenues relates to:

License fees charged on a per procedure basis for access to the proprietary software contained in the VISX STAR System that enables the user to perform procedures covered by our patents;

The selling price for the physical card used to deliver access to the proprietary software contained in the VISX STAR System; and

Other fees from third parties who have licensed our technology.

License and other revenues increased 16%, or $5.2 million, in the first quarter of 2005 compared with 2004, reflecting increased conversion by our United States customers from our standard procedure to our CustomVue procedure, as well as growth of our procedure volume in the United States. We believe adoption of our CustomVue procedure in the United States increased in the first quarter of 2005 due to ongoing improved market acceptance of CustomVue and because of an increase in the number of patients eligible for CustomVue due to FDA approval for CustomVue hyperopia in the fourth quarter of 2004. Our standard procedure price has remained the same since prior to 2002. We believe the increase in procedure volume was due to improved consumer economic conditions and improvements in our

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technology. Historically, procedure volume has been highest in the first quarter, therefore we expect license and other revenues to be lower during the remainder of 2005.

We believe that our license and other revenues will improve in 2005 as compared to 2004 based on the following projected factors:

Increases in demand for CustomVue procedures;

FDA approval of new CustomVue procedures; and

Growth in the United States laser vision correction market.

The decision to have laser vision correction surgery is influenced by many factors. The procedure is elective and generally not covered by medical insurance; therefore it competes with many types of purchases for consumers discretionary spending. Perceptions about safety and effectiveness of the procedure are additional considerations. The lack of long-term follow-up studies of the procedure combined with media coverage of selected unfavorable outcomes may contribute to uncertainty and delay by some potential consumers. Economic uncertainties may also impact the interest in laser vision correction. As such, we cannot accurately predict when, or to what extent changes in the economy and technology will impact our license and other revenues.

System Revenues

System revenues comprise sales and leases of the following equipment:

VISX STAR Systems;

WaveScan Systems; and

Upgrades

System revenues increased by $1.6 million due to an increase in the number of VISX STAR Systems shipped and also due to increased recognition of revenue from systems shipped in 2004 under operating lease arrangements. Under operating lease arrangements revenue is generally recognized over the term of the agreement. WaveScan System sales in the first quarter of 2005 decreased as compared to 2004 as at least 80% of our United States customers had one or more WaveScan Systems by the end of 2004.

The market for laser systems remains competitive. To respond to aggressive promotional offers by our competitors we earned lower average revenue per system on laser sales in the first quarter of 2005 as compared to 2004.

In the remainder of 2005, we believe there will be no significant growth in revenues from laser system revenues and that the sale of WaveScan Systems will be less than in 2004, since most of our customers have already purchased a WaveScan System. We expect to begin shipments of Iris Registration late in the second quarter of 2005 and expect an increase in upgrade revenue as compared to 2004.

Service and parts revenues

Service revenues relate to the provision of repair and maintenance services under various types of arrangements. Spare parts revenues arise from the shipment of parts to customers.

Service and parts revenues increased 15%, or $0.8 million, in the first quarter of 2005 compared with 2004 primarily due to the increase in procedure volumes and the resultant higher revenues derived from customers who purchased

service on a per procedure basis and additional service contracts from WaveScan systems coming off of warranty coverage. Per procedure service contracts allow customers to

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pay a fixed, predetermined fee for ongoing maintenance services. This fixed fee is negotiated in advance of the commencement of the service contract. Whenever the customer purchases a procedure, in addition to the charges for the physical card and license fees, a service fee is also charged for ongoing maintenance. Pricing of per procedure service contracts was unchanged in the first quarter of 2005 compared with 2004. We consider each successive 30 day period after contract initiation as a service period. The start date for per procedure service contracts vary by customers across the month. As an approximation based on our knowledge of our customers business, half of the per procedure service contracts have a start date in the first half of the month and half in the second half of the month. We recognize half of the per procedure service revenue in the month the treatment cards for the procedures are shipped and the other half in the subsequent month. Service revenues from per procedure service contracts are generally lower than those from fixed annual service contracts. Historically, procedure volume has been highest in the first quarter, therefore we expect service revenues to be lower in the remaining quarters of 2005.

	Three Months Ended March 31,		
($000 s)	2005	2004	Change
Cost of license and other revenues	1,123	980	*15%*
Percent of related revenues	*3.0%*	*3.0%*	
Cost of system revenues	7,154	5,291	*35%*
Percent of related revenues	*93.3%*	*87.1%*	
Cost of service and parts revenues	4,262	3,598	*18%*
Percent of related revenues	*70.8%*	*68.6%*	
Selling, general and administrative	10,510	9,757	*8%*
Percent of total revenues	*20.5%*	*22.3%*	
Research, develop. and regulatory	5,172	5,044	*3%*
Percent of total revenues	*10.1%*	*11.5%*	

Cost of license and other revenues

Cost of license and other revenues increased in the first quarter of 2005 from the comparable period of the prior year due to the corresponding increase in license and other revenues. We anticipate that our margins will be approximately the same for the remainder of 2005.

Cost of system revenues

Cost of system revenues increased approximately $1.9 million, in the first quarter of 2005 from the comparable period of the prior year. Sales of VISX Star Systems increased and the overall gross profit margin decreased as the competitive pricing pressure for excimer lasers reduced the average system selling price with no corresponding reduction in average system cost. Our gross profit margin on system revenues decreased in 2005 from 2004 primarily due to increased warranty expense.

Cost of service and parts revenues

Cost of service and parts revenues increased approximately $0.7 million in the first quarter of 2005 from the comparable period of the prior year. The increase was due to a larger installed base of products in the United States. The gross margin on these revenues was relatively consistent year over year.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by approximately $0.8 million to $10.5 million in the first quarter of 2005 compared with the corresponding period of 2004. The change reflects primarily the following items:

Legal expenses increased $0.7 million primarily due to the fees incurred in the first quarter of 2005 for the pending merger with AMO;

Marketing costs increased $0.6 million primarily due to continued training and promotion of our CustomVue procedure and promotion of Iris Registration; and

Lower incentive compensation of $0.6 million.

Research and Development and Regulatory Expenses

Our research and development and regulatory expenses increased by approximately $0.1 million in the first quarter of 2005 compared to the corresponding period of 2004. We continue to focus on next generation technologies and developments for laser vision correction, including:

System advancements;

New methods for correcting vision disorders including new CustomVue correction procedures (such as hyperopia and high myopia); and

Continued research and clinical trials for treatment of presbyopia.

Interest and Other Income

Interest income increased in the first quarter of 2005 from the comparable period of 2004 as a result of:

Higher average cash balances due to continued operating profitability; and

Higher average yields on our portfolio of cash and investments compared to the first quarter of 2004 due to market increases in interest rates.

Income Tax Provision

Our effective tax rate of 38.9% in the first quarter of 2005 was slightly lower than our effective tax rate of 39.6% in 2004. The tax rate was lower in 2005 due primarily to the following items:

Certain tax matters were concluded that enabled us to ensure that previously estimated tax reserves were no longer required; and

No tax benefit was recorded for the approximately $650,000 in merger-related expenses.

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Liquidity and Capital Resources

Cash, cash equivalents and short-term investments (cash) and working capital were as follows (in thousands):

	March 31, 2005 (Unaudited)	December 31, 2004
Cash, cash equivalents and short-term investments	$ 160,437	$ 138,408
Working capital	179,367	162,299
Stockholders equity	194,884	178,656

Our cash, cash equivalents, and short-term investments consist principally of money market funds, and bonds issued by the United States government, United States government agencies, federal government sponsored enterprises, state and local government agencies, and corporations. All of our short-term investments are classified as available-for-sale under the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. The securities are carried at fair market value with the unrealized gains and losses, net of tax, included in accumulated other comprehensive income, which is reflected as a separate component of stockholders equity. Gains and losses are recognized when realized in the consolidated statements of operations.

Cash, cash equivalents and short-term investments were $160.4 million at March 31, 2005, an increase of $22.0 million compared with December 31, 2004. This was impacted principally by:

- Positive cash flow from operating activities of $20.8 million; and
- Proceeds from issuance of common stock related to employee participation in employee stock programs generating $1.8 million.

Operating activities generated $20.8 million in cash in the first quarters of 2005 and 2004. In the first quarter of 2005, we:

- Generated $18.9 million of cash from net income plus non-cash related expenses;
- Used cash to increase inventory by $1.6 million primarily to support the increase in sales of systems under rental or operating leases. The costs of systems shipped to customers under rental or operating agreements are transferred from inventory to prepaid expenses and long term other assets. This transfer is reflected in the supplemental cash flow information section of our consolidated statements of cash flows;
- Used cash to fund an increase in accounts receivable of $3.6 million due primarily to higher sales levels in the first quarter of 2005;
- Increased accrued and other current liabilities by $3.7 million due primarily to increased deferred revenue associated with operating and rental lease arrangements; and
- Increased accounts payable by $2.9 million due to timing of cash payments to our suppliers.

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Net cash used by investing activities was $19.8 million in the first quarter of 2005, up from $15.9 million used in the corresponding period of 2004. The principal movements in cash used in investing activities were due to the investment in, and maturity of, short-term investments.

Cash provided by financing activities was $1.8 million in the first quarter of 2005, compared to $5.6 million used in the corresponding period of 2004. Cash received upon the issuance of stock under employee stock programs were $1.8 million and $2.5 million in the first quarter of 2005 and 2004, respectively. Cash used to repurchase common stock was zero in the first quarter of 2005, compared to $8.1 million used in 2004.

On April 4, 2001, our Board of Directors authorized a stock repurchase program under which up to 10 million shares of VISX common stock may be repurchased. In accordance with this authorization and applicable securities laws, we have repurchased 7.8 million shares on the open market cumulatively through March 31, 2005, at a total cost of $106.8 million. Accordingly, 2.2 million shares remain available as of March 31, 2005 for repurchase under the Board of Directors April 2001 authorization. On May 28, 2003, the Board of Directors authorized the repurchase of an additional 3.5 million shares of VISX stock at a total cost of $63.0 million, all of which were purchased during the quarter ended June 30, 2003. Before repurchasing shares we consider a number of factors including market conditions, the market price of the stock, and the number of shares needed for employee benefit plans. Under the terms of the merger agreement with AMO, we are precluded from repurchasing any of our outstanding common stock on the open market. Accordingly, we did not repurchase any of our common stock in the three month period ended March 31, 2005.

Purchases of short-term investments represent reinvestment into short-term investments of the proceeds from short-term investments that matured and investment of cash and cash equivalents. As of March 31, 2005, we did not have any borrowings outstanding, nor any credit agreements.

Our standard credit terms granted to customers are net 30 to 60 days. In an effort to promote the growth of the laser vision correction industry and the use of VISX STAR Systems and WaveScan Systems, we provide long-term financing to customers for their purchase of our equipment in certain markets. We consider a number of factors including industry practice, competition, and our evaluation of customers credit worthiness in determining when to offer such financing. DVI, which provided equipment purchase financing to our customers, entered into Chapter 11 bankruptcy proceedings in August 2003, and as a result, we recorded bad debt expense in 2003 to increase our reserve for doubtful accounts to cover any remaining exposure on the $2.3 million of accounts receivables then outstanding from DVI. This amount was written off against the reserve in the first quarter of 2005.

We believe our operations will generate cash in 2005 at a level equal to or greater than in 2004. We believe this will exceed cash required to fund our working capital and capital equipment needs during the coming twelve months. In addition, we have $160.4 million in cash, cash equivalents, and short-term investments as of March 31, 2005 to provide for unforeseen contingencies.

In May 2002, we entered into an exclusive worldwide license agreement for a portfolio of patents held by Luis Ruiz, MD, relating to the treatment of presbyopia with multifocal ablations. We also signed an agreement with Tracey Technologies, LLC for rights to Tracey s ray tracing technology for use in customized laser vision correction treatments. If clinical and regulatory milestones specified in both agreements are achieved, we will be committed to make additional payments of approximately $2.0 million in the aggregate in connection with these two agreements. If in the future either of these technologies are used in the performance of procedures using our equipment, we would be obligated to pay per procedure royalties.

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Critical Accounting Policies, Estimates and Judgments

We follow accounting principles generally accepted in the United States (GAAP) in preparing our financial statements. As part of this work, we must make many estimates and judgments about future events. These affect the value of the assets and liabilities, contingent assets and liabilities, and revenues and expenses reported in our financial statements. We believe these estimates and judgments are reasonable and we make them in accordance with our accounting policies based on information available at the time. However, actual results could differ from our estimates and could require us to record adjustments to expenses or revenues material to our financial position and results of operations in future periods. We believe our most critical accounting policies, estimates and judgments include the following:

Revenue Recognition

We are required to ensure that collectibility is reasonably assured before we recognize revenue. Accordingly, we evaluate our customers for credit worthiness and only recognize revenue if we believe that we have reasonable assurance that amounts will be collected. Where we are unable to assess with reasonable assurance that amounts will be collected, we defer revenue recognition until the payments are received. This typically occurs when the customer is thinly capitalized and is occasionally the case with customers who have recently set themselves up in business.

Accounts Receivable

At the end of each accounting period, we estimate the reserve necessary for accounts receivables that will ultimately not be collected from customers. To develop this estimate, we review all receivables and identify those accounts with problems. For these problem accounts, we estimate individual, specific reserves based on our analysis of the payment history, operations and finances of each account. For all other accounts, we review historical bad debt trends, general and industry specific economic trends, customer concentrations, and current payment patterns to estimate the reserve necessary to provide for payment defaults that cannot be specifically identified but can be expected with reasonable probability to occur in the future. We face two particular challenges in estimating these reserves: concentration of credit with certain large customers and the potential for significant change in the overall health of the national economies in the markets we serve. Unexpected deterioration in the health of either a large customer or a national economy could lead to a material adverse impact on the collectibility of our accounts receivable and our future operating results. Our allowance for doubtful accounts at March 31, 2005 and December 31, 2004 as a percentage of gross accounts receivable was 5.2% and 11.0%, respectively. At March 31, 2005, a one-percentage point deviation in our allowance for doubtful accounts as a percentage of accounts receivable would have resulted in an increase or decrease in expense of approximately $0.4 million.

Inventories

Adjustments to the carrying value of inventory for excess and obsolete items are based, in part, on our estimate of demand over the following 6 months. This estimate, though based on our historical experience and consideration of other relevant factors, such as the current economic climate, is subject to some uncertainty. Amounts charged to income for excess and obsolete inventory for the quarters ending March 31, 2005 and 2004, respectively as a percentage of total revenues in those periods, were all less than 1%. To date, our estimates have been materially accurate and subject to any major changes in our business model, our operating environment or the economy, and taking consideration of the ongoing

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development of our technology, we do not expect either our methodology or the accuracy of our estimates to change significantly in the future.

Legal Contingencies

At the end of each accounting period, we review all outstanding legal matters. If we believe it is probable that we will incur a loss as a result of the resolution of a legal matter and we can reasonably estimate the amount of the loss, we accrue our best estimate of the potential loss. It is very difficult to predict the future results of complex legal matters, although historically, the amounts we have paid out have been materially similar to the amounts that we have accrued. New developments in legal matters can cause changes in previous estimates and result in significant changes in loss accruals. Current litigation is discussed in Note 8 to these condensed consolidated interim financial statements. We could, in the future, be subject to litigation claims that could cause us to incur significant expenses and put our business, financial position, and results of operations at material risk.

Accounting for Taxes

We are subject to various federal, state and local taxes, including income, sales, payroll, unemployment, property, franchise, capital and use taxes on our operations, payroll, assets and services. In preparing our consolidated financial statements, we are required to estimate our tax expense in each of the jurisdictions in which we operate. These estimates cover current tax assets and liabilities together with temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. In estimating our tax exposure we are required to make certain estimates and judgments based on our evaluation of tax law and the facts and circumstances relating to our business. These positions may not always be accepted by all of the tax authorities in each of the jurisdictions in which we operate. As a result, our tax liabilities may differ from our estimates based on audits by tax authorities. Our tax expense could increase if tax incentives are not renewed upon expiration, tax rates applicable to us are increased, authorities challenge our tax strategies, or our tax strategies are impacted by new laws or rulings.

Risk Factors

This report contains forward-looking statements that involve risk and uncertainty. The factors set forth below, which are not the only risks we face, may cause our actual results to vary from those contemplated by forward-looking statements set forth in this report and should be considered carefully in addition to the other information presented in this report. If any of the following risks actually occur, our business, results of operations or cash flows could be adversely affected. Our results of operations have varied widely in the past and could continue to vary significantly. In addition, our actual results may differ significantly from the results contemplated by the forward-looking statements. Accordingly, we believe that our results of operations in any given period may not be a good indicator of our future performance.

Our business and stock price may be adversely affected if the merger with AMO is not completed.

On November 9, 2004, we entered into an agreement to combine our business with AMO. The announcement of the planned merger could have an adverse effect on our revenues in the near-term if customers delay, defer, or cancel purchases pending resolution of the planned merger with AMO. To the extent our announcement of the merger creates uncertainty among persons and organizations

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contemplating purchases of products or services such that several large customers, or a significant group of small customers, delays purchase decisions pending resolution of the planned merger, this could have an adverse effect on our results of operations and quarterly revenues could be substantially below the expectations of market analysts and could cause a reduction in stock price.

In addition, if the merger is not completed, we could be subject to a number of risks that may adversely affect our business and stock price, including: we would not realize the benefits we expect to receive by being part of a combined company with AMO, as well as the potentially enhanced financial and competitive position we believe would result from being part of the combined company; the diversion of management s attention from our day-to-day business and the unavoidable disruption to our employees and our relationships with customers which, in turn, may detract from our ability to grow revenues and minimize costs and lead to a loss of market position that we could be unable to regain; the market price of our shares of common stock may decline to the extent the current market price of those shares reflects a market assumption that the merger will be completed; under certain circumstances we could be required to pay AMO a $45 million termination fee; and we must pay the costs related to the merger, such as legal and accounting fees and a portion of the investment banking fees.

In connection with the proposed merger, AMO has filed a registration statement with the SEC. The definitive joint proxy statement/prospectus included therein was mailed to all holders of our stock on or about April 27, 2005 and contains important information about VISX, AMO and the proposed merger, risks relating to the merger and the combined company, and related matters. We urge all of our stockholders to read the definitive joint proxy statement/prospectus prior to their vote scheduled on May 26, 2005.

If laser vision correction is not broadly accepted by both doctors and patients, our business, financial position and results of operations would be materially and adversely impacted.

Our business depends upon broad market acceptance of laser vision correction by both doctors and patients in the United States and key international markets. Laser vision correction has penetrated approximately 6% of the eligible United States population, and our profitability and growth will be largely dependent on increasing levels of market acceptance and procedure growth, especially with regard to our higher-priced CustomVue procedure. Potential complications and side effects of laser vision correction include: post-operative discomfort, corneal haze (an increase in the light scattering properties of the cornea) during healing, glare/halos (undesirable visual sensations produced by bright lights), decreases in contrast sensitivity, temporary increases in intraocular pressure in reaction to procedure medication, modest fluctuations in refractive capabilities during healing, modest decrease in best corrected vision (i.e., with corrective eyewear), unintended over- or under-corrections, regression of effect, disorders of corneal healing, corneal scars, corneal ulcers, and induced astigmatism (which may result in blurred or double vision and/or shadow images). Some consumers may choose not to undergo laser vision correction because of these complications or more general concerns relating to its safety and efficacy or a resistance to surgery in general. Alternatively, some consumers may elect to delay undergoing laser vision correction surgery because they believe improved technology or methods of treatment will be available in the near future. Should either the ophthalmic community or the general population turn away from laser vision correction as an alternative to existing methods of treating refractive vision disorders, or if future technologies replaced laser vision correction, these developments could delay or prevent market acceptance of laser vision correction, which would have a material adverse effect on our business, financial position and results of operations.

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The possibility of long-term side effects and adverse publicity regarding laser correction surgery could seriously harm our business.

Laser vision correction is a relatively new procedure. Consequently, there is no long-term follow-up data beyond ten years that might reveal additional complications or unknown side effects. Any future reported side effects, other adverse events or unfavorable publicity involving patient outcomes resulting from the use of laser vision correction systems manufactured by us or any participant in the laser vision correction market, may have a material adverse effect on our business, financial position, and results of operations.

The market in which we operate is subject to extensive government regulation, which increases our costs and could prevent us from selling our products.

Government regulation includes inspection of and controls over research and development, testing, manufacturing, safety and environmental controls, efficacy, labeling, advertising, promotion, pricing, record keeping, the sale and distribution of pharmaceutical products and samples and electronic records and electronic signatures. In the United States, we must obtain approval or clearance from the United Stated Food and Drug Administration, or FDA, for each medical device that we market. The FDA approval process is typically lengthy and expensive, and approval is never certain. Products distributed outside of the United States are also subject to government regulation, which may be equally or more demanding. Our new products could take a significantly longer time than expected to gain regulatory approval and may never gain approval. If a regulatory authority delays approval of a potentially significant product, our market value and operating results may decline. Even if the FDA or another regulatory agency approves a product, the approval may limit the indicated uses for a product, may otherwise limit our ability to promote, sell and distribute a product or may require post-marketing studies. If we are unable to obtain regulatory approval of our products, we will not be able to market these products, which would result in a decrease in our sales. Currently, we are actively pursuing approval for a number of our products from regulatory authorities in a number of countries, including, among others, the United States, countries in the European Union and Japan. Continued growth in our sales and profits will depend, in part, on the timely and successful introduction and marketing of some or all of these products.

Additionally, noncompliance with applicable United States regulatory requirements can result in fines, injunctions, penalties, mandatory recalls or seizures, suspensions of production, denial or withdrawal of pre-marketing approvals, recommendations by the FDA against governmental contracts and criminal prosecution. The FDA also has authority to request repair, replacement, or the refund of the cost of any device we manufacture or distributes. Regulatory authorities outside of the United States may impose similar sanctions for noncompliance with applicable regulatory requirements.

The clinical trial process required to obtain regulatory approvals are costly and uncertain, and could result in delays in new product introductions or even an inability to release a product.

The clinical trials required to obtain regulatory approvals for our products are complex and expensive and their outcomes are uncertain. We incur substantial expense for, and devote significant time to, clinical trials but cannot be certain that the trials will ever result in the commercial sale of a product. We may suffer significant setbacks in clinical trials, even after earlier clinical trials showed promising results. Any of our products may produce undesirable side effects that could cause us or regulatory authorities to interrupt, delay or halt clinical trials of a product candidate. We, the FDA, or another regulatory authority may suspend or terminate clinical trials at any time if they or we believe the trial participants face unacceptable health risks.

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Intense competition in the laser vision correction industry could result in the loss of customers, an inability to attract new customers, a decline in the price we charge for our products and procedures or a decline in our market share.

The medical device and ophthalmic laser industries are subject to intense competition and technological change. Not only does laser vision correction compete with more traditional vision correction options such as eyeglasses and contact lenses, it also competes with other technologies and surgical techniques such as intraocular lenses and surgery using different types of lasers. In addition, the market for laser vision correction systems has become increasingly competitive in recent years as a result of FDA approval of several laser systems. The VISX STAR Excimer Laser System competes with products marketed or under development by other laser and medical equipment manufacturers, many of which have greater financial and other resources. Competitors may offer laser systems at a lower price, may price their laser systems as part of a bundle of products or services, may lower the prices they charge for procedures, may develop procedures that involve a lower per procedure cost, or may offer products perceived as preferable to the VISX STAR Excimer Laser System. In addition, medical companies, academic and research institutions and others could develop new therapies, including new medical devices or surgical procedures, for the conditions targeted by us, which therapies could be more medically effective and less expensive than laser vision correction, and could potentially render laser vision correction obsolete. Any such developments could result in reductions in the quantity or average prices of products sold by us and which could have a material adverse effect on our business, financial position and results of operations.

Additionally, Market Scope estimated that as at December 31, 2004 we were the leader in the United States procedures market with a market share of approximately 60%. Because of this position, all of our competitors target us and our market share in order to grow their own revenues. We can give no assurance that we will be able to maintain or grow our existing market share and we may, in fact, be required to incur considerable expenditures in order to maintain or increase that market share. Should our procedure market share decline, it could have a material adverse effect on our business, financial position, and results of operations as well as the market price of our common stock.

General economic conditions could have a negative impact on our business, financial position, and results of operations.

Because laser vision correction is not subject to reimbursement from third-party payors such as insurance companies or government programs, the cost of laser vision correction is typically borne by individuals directly. Accordingly, weak or uncertain economic conditions may cause individuals to be less willing to incur the procedure cost associated with laser vision correction as was evidenced by our decline in revenues from 2002 compared to 2001 and from 2001 compared to 2000. A decline in economic conditions, especially in the United States, could result in a decline in the number of laser vision correction procedures performed and could have a material adverse effect on our business, financial position, and results of operations.

We rely upon a small number of customers for a significant portion of our revenues, which makes our financial position and operating results vulnerable to the loss of one of more of these customers.

A significant portion of our revenues is derived from sales to TLC Vision Corporation, or TLC. Sales to TLC accounted for 16% and 20% of our total revenues for the three months ended March 31, 2005 and 2004 respectively. TLC accounted for 23% and 21% of our total receivables at March 31, 2005 and December 31, 2004. Additionally, Taiwan Hwa-In Corporation accounted for 10% and 12% of our total

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receivables at March 31, 2005 and December 31, 2004. Should we lose a significant customer or if anticipated sales to a significant customer do not materialize, our business, financial position and results of operations may suffer. In addition, should a significant customer become unable to pay balances owed, we would have to increase our charges for bad debt expense, which could have a material adverse effect on our business, financial position and results of operations.

If we fail to keep pace with advances in our industry or fail to develop new methods of vision correction, customers may not buy our products and our revenue may decline.

We must be able to manufacture and effectively market our products and persuade a sufficient number of eye care professionals to use our new products, as well as new methods of vision correction that we introduce, such as our CustomVue procedure. Sales of our existing products may decline rapidly if a new product is introduced by one of our competitors or if we announce a new product that, in either case, represents a substantial improvement over our existing products. A decrease in procedure volume may also occur if consumers elect to delay undergoing laser vision correction surgery because they believe improved technology or methods of treatment will be available in the near future.

While we devote significant resources to research and development, our research and development may not lead to new products that achieve commercial success.

Our research and development process is expensive, prolonged, and entails considerable uncertainty. Development of a new medical device, from discovery through testing and registration to initial product launch, typically takes between three and seven years. Each of these periods varies considerably from product to product and country to country. Because of the complexities and uncertainties associated with ophthalmic research and development, products we are currently developing may not complete the development process or obtain the regulatory approvals required to market such products successfully. The products currently in our development pipeline may not be approved by regulatory entities and may not be commercially successful, and our current and planned products could be surpassed by more effective or advanced products.

Our business is dependent on the enforceability and the validity of our United States and foreign patents; any unfavorable determinations with respect to these patents could negatively impact our financial condition and harm our business.

We own over 200 United States and foreign patents and have more than 200 patent applications pending. In the past, our patents have been challenged on several fronts and we have asserted our patents against competitors. Generally, these proceedings centered on whether infringement of the patents had occurred, and on the validity or enforceability of the patents. While all of our historical proceedings have now been resolved, we may assert our patents against competitors in the future. If our patents were found to be invalid or unenforceable (or in the event that parties against whom we asserted patent infringement were found not to be infringing our patents) in any future proceedings, our ability to collect license fees from the parties to the litigation or from other sellers or users of laser vision correction equipment in the United States could suffer and our revenues could decline. In addition, other companies own United States and foreign patents covering methods and apparatus for performing corneal surgery with ultraviolet lasers. If we were accused of infringing such competitors patents and found to have infringed such patents, we could be subject to significant monetary liability and enjoined from distributing our products. Any one of these results could harm our business.

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An unfavorable outcome in a product liability lawsuit could have a material adverse effect on our business, financial position, and results of operations.

We have in the past, and may again in the future, become subject to product liability claims. We could be liable for injuries or damage resulting from use of the VISX STAR Excimer Laser System or WaveScan System. In addition, a claim that an injury resulted from a defect in any of our products, even if successfully defended, could damage our reputation. Product liability claims in excess of our insurance coverage against product liability risks associated with the testing, manufacturing, and marketing of its products could have a material adverse effect on our business, financial position, and results of operations.

If we become involved in litigation, unexpected costs and diversion of management s resources could result.

In the past, we have been involved in a number of legal proceedings, some of which have resulted in significant legal expenses and settlement costs. In the future, we may become involved in additional legal proceedings that, regardless of their outcome or validity, could lead to additional expenses being incurred and diversion of our management s resources.

Our reliance on sales in international markets could negatively impact our revenues and operating results.

Sales to customers outside the United States represented 17% and 14% of our total revenues during the three months ended March 31, 2005 and 2004, respectively. To date, all of our sales have been denominated in United States dollars. Our international presence exposes it to risks, including:

the need for export licenses in many countries;

unexpected regulatory requirements;

tariffs and other potential trade barriers and restrictions;

political, legal and economic instability in foreign markets such as South Korea;

longer accounts receivable cycles in all international markets;

difficulties in managing operations across disparate geographic areas;

foreign currency fluctuations;

reduced or limited protection of our intellectual property rights in some countries such as Taiwan; and

dependence on local distributors.

We are particularly susceptible to these risks in South Korea, Taiwan and Canada. If one or more of these risks materialize, our sales to international customers may decrease and our costs may increase, which could negatively impact our revenues and operating results.

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An unfavorable outcome in the securities class action lawsuit pending against us and certain of our directors and executive officers could impact our ability to complete the merger with AMO, or alternatively, could result in our stockholders having rights of rescission against the merger.

On or about November 12, 2004, two putative class action lawsuits were filed in the Superior Court of the State of California, County of Santa Clara, against us and our board of directors. The cases were captioned William Kinchy vs. VISX, Incorporated, et al., Case No. 104CV030447 and Douglas Shearer vs. VISX, Incorporated, et al., Case No. 104CV030452 and subsequently consolidated under the Kinchy case. The Kinchy amended complaint seeks an injunction prohibiting us from consummating the merger with AMO and rights of rescission against the merger and any of the terms of the merger agreement, as well as attorneys fees and costs.

On March 14, 2005, VISX reached an agreement in principle with plaintiff s counsel pursuant to which plaintiff will release the defendants, as well as AMO and certain VISX agents and affiliates, from all claims that have been brought or could have been brought under state or federal law arising out of or relating to the merger. The settlement agreement remains subject to approval by the Superior Court of the State of California for the County of Santa Clara, which is not expected to be obtained prior to the completion of the merger. Under the agreement in principle, VISX agreed to make certain additional disclosures that have been included in the joint proxy statement/prospectus. In addition, VISX has agreed that it will not oppose a fee application by plaintiff s counsel of up to $500,000. The settlement does not contemplate any changes to the merger agreement or the merger.

If the injunction sought is granted, we might not be able to complete the merger in a timely manner, or at all. If the injunction sought is not granted but this matter has not been resolved prior to the completion of the merger, the lawsuit could result in our stockholders having rescission rights against the merger.

Any failure by third party financing entities to satisfy their obligations to us would negatively impact our financial condition.

We have relationships with third party financing entities that purchase our products directly and subsequently lease and/or sell these products to our end-user customers, or provide financing directly to customers who purchase products directly from us. Should any third party financing entity or entities fail or refuse to pay us in a timely manner or at all, it could negatively affect our cash flows and could have a material adverse effect on our business, financial position and results of operations. In fact, DVI, which provided equipment purchase financing to our customers, entered into Chapter 11 bankruptcy proceedings in August 2003, and as a result, we recorded bad debt expense to increase our reserve for doubtful accounts to cover any remaining exposure on the $2.3 million of accounts receivables then outstanding from DVI. This amount was written off against the reserve in the first quarter of 2005.

Because our expenses are relatively fixed in the short term, our earnings will decline if it does not meet our projected sales.

Our operating expenses, which include sales and marketing, research and development, and general and administrative expenses, are based on our expectations of future revenues and are relatively fixed in the short term. If revenues fall below expectations, we will not be able to reduce our spending rapidly in response to such a shortfall. Accordingly, any shortfall in revenues below expectations would likely have an immediate impact on our earnings per share, which could adversely affect the market price of our common stock.

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Adverse tax assessments could have a negative impact on our earnings.

We operate throughout the United States and, consequently, are subject to various federal, state and local taxes, including sales, income, payroll, unemployment, property, franchise, capital and use tax on our operations, payroll, assets and services. We have made provisions and accruals in our financial statements for tax liabilities, but we cannot predict the outcome of all past and future tax assessments. If any taxing authority determines we owe amounts for taxes greater than expected, our earnings may be negatively affected.

If any of our single source suppliers were to cease providing components, our business, financial position, and results of operations, could be materially adversely affected.

The manufacture of the VISX STAR Excimer Laser System and WaveScan System is a complex operation involving numerous procedures. We depend on single and limited sources for several key components. If any of these suppliers were to cease providing components, we would be required to locate and contract with a substitute supplier. We could have difficulty identifying a substitute supplier in a timely manner or on commercially reasonable terms. If the production of our products, parts and services were interrupted or could not continue in a cost-effective or timely manner, our business, financial position, and results of operations, could be materially adversely affected.

Volatility in our stock price may discourage investment in our common stock.

The market price of our common stock has experienced fluctuations and is likely to fluctuate significantly in the future. Our stock price can fluctuate for a number of reasons, including:

announcements about us or our competitors;

results or settlements of litigation;

quarterly variations in operating results;

the introduction or abandonment of new technologies or products;

changes in product pricing policies by us or our competitors;

changes in earnings estimates by analysts or changes in accounting policies; and

economic changes and political uncertainties.

In addition, stock markets have experienced significant price and volume volatility in recent years. This volatility has had a substantial effect on the market prices of securities of many public companies for reasons frequently unrelated or disproportionate to the operating performance of the specific companies. In addition, the securities of many medical device companies, including ours, have historically been subject to extensive price and volume fluctuations that may affect the market price of their common stock. If these broad market fluctuations continue, they may adversely affect the market price of our common stock.

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If any of our employees, consultants or others breach their proprietary information agreements, our competitive position could be harmed.

We protect our proprietary technology, in part, through proprietary information and inventions agreements with employees, consultants and other parties. These agreements with employees and consultants generally contain standard provisions requiring those individuals to assign to us, without additional consideration, inventions conceived or reduced to practice by them while employed or retained by us, subject to customary exceptions. If any of our employees, consultants or others breach these agreements our competitors may learn of our trade secrets.

Recent changes in the accounting treatment of stock options could have a negative impact on our financial statements and cause its stock price to decline.

In December, 2004, the FASB issued SFAS No. 123(R). This standard requires expensing of stock options and other share-based payments and supercedes the FASB s earlier rule (the original SFAS 123) that had allowed companies to choose between expensing stock options or showing pro forma disclosure only. We currently show the pro forma disclosures in Note 1 to these condensed consolidated interim financial statements. In April 2005, the SEC approved a new rule to delay the effective date of SFAS 123(R) to annual periods that commence after June 15, 2005. We will be required to implement the new pronouncement and begin recording share-based expense at the beginning of the first quarter of fiscal 2006. Although we have not yet determined whether the adoption of the SFAS 123(R) will result in amounts that are similar to the current pro forma disclosures under SFAS 123, we expect the adoption of SFAS No. 123(R) to have a significant adverse impact on our consolidated operating results.

The anti-takeover provisions in our charter documents could delay or prevent a takeover attempt or make an investment in our common stock less appealing to future investors.

In 2000, we adopted a stockholder rights plan. The presence of this plan could make it more difficult for a third party to engage in a takeover attempt, even a takeover attempt in which the potential purchaser offers to pay a per share price greater than the current market price for our common stock. In addition, the presence of the plan could delay or impede the removal of incumbent directors. These provisions may also impact the amount of interest investors have in our business.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes during the three months ended March 31, 2005 in our exposure to market risk for changes in interest rates and foreign currency exchange rates.

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments and our investment portfolio to manage our interest rate risk, foreign currency risk or for any other purpose. We invest in high-credit quality issuers and, by policy, limit the amount of credit exposure to any one issuer. As stated in our policy, we ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in safe and high-credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer, guarantor or depository. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity.

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Item 4. Controls and Procedures

VISX management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report (the Evaluation Date). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion.

There have been no significant changes in internal controls over financial reporting (as defined in Rule 13a-15(f)) during the three months ended March 31, 2005 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Overview

From time to time, we have been involved in a variety of legal proceedings. For a complete description of legal proceedings, see our annual report on Form 10-K for the year ended December 31, 2004. During the quarter ended March 31, 2005, there were no material developments with respect to such previously existing proceedings and no new material proceedings not previously disclosed, except as follows:

On or about November 12, 2004, two putative class action lawsuits were filed in the Superior Court of the State of California, County of Santa Clara, against VISX and the VISX Board of Directors. The cases were captioned William Kinchy vs. VISX, Incorporated, et al., Case No. 104CV030447 and Douglas Shearer vs. VISX, Incorporated, et al., Case No. 104CV030452. On January 27, 2005, the court ordered the two cases consolidated under the Kinchy case. On January 28, 2005, William Kinchy filed an amended complaint that alleges, among other things, that the VISX Board of Directors and certain executive officers breached their fiduciary duties of loyalty and due care by approving the merger agreement with AMO and the merger contemplated by the merger agreement without undertaking sufficient efforts to obtain the best offer possible for stockholders. The complaint further alleges that the consideration to be paid in the merger is unfair and inadequate, and that the defendants breached their fiduciary duties of care, loyalty and candor to VISX s public stockholders in connection with the merger. The complaint seeks an injunction prohibiting VISX from consummating the merger and rights of rescission against the merger and any of the terms of the merger agreement, as well as attorneys fees and costs.

On March 14, 2005, we reached an agreement in principle with plaintiff s counsel pursuant to which plaintiff will release the defendants, as well as AMO and certain VISX agents and affiliates, from all claims that have been brought or could have been brought under state or federal law arising out of or relating to the merger. The settlement agreement remains subject to approval by the Superior Court of the State of California for the County of Santa Clara, which is not expected to be obtained prior to the completion of the merger. Under the agreement in principle, we agreed to make certain additional disclosures that have been included in the joint proxy statement/prospectus. In addition, we have agreed that we will not oppose a fee application by plaintiff s counsel of up to $500,000. The settlement does not contemplate any changes to the merger agreement or the merger.

In or about October 2001, we terminated a Development and Supply Agreement with Aculight Corporation (the Agreement). The Agreement requires that before any party may commence litigation for any controversy or claim arising under the Agreement, such claim must first be submitted to nonbinding mediation. Aculight has corresponded with us concerning a claim that it is owed approximately $1.9 million in cancellation fees by virtue of our termination of the Agreement. We deny that any amounts are owed because Aculight was in breach of certain obligations under the Agreement at the time of termination; Aculight contends that it did not breach any such obligations. Aculight demanded mediation of this dispute pursuant to the Agreement, and in January 2005, we scheduled mediation before Judicial Arbitration and Mediation Services (JAMS) for March 25, 2005. This mediation is currently ongoing with no agreement having yet been reached. While it is not feasible to predict or determine with certainty the final outcome of the mediation, or any lawsuit filed by Aculight if the parties dispute is not resolved by mediation, we believe any such lawsuit would be without merit, and that the mediation or lawsuit would not be likely to give rise to any liability that would materially affect our financial condition or results of operations.

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Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

There were no repurchases of our common stock during the quarter ended March 31, 2005.

Item 5. Other Information

In accordance with Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002, VISX is responsible for disclosing the non-audit services approved by VISX s Audit Committee to be performed by KPMG LLP, VISX s registered independent public accounting firm. Non-audit services are defined in the law as services other than those provided in connection with an audit or a review of the financial statements of VISX. The non-audit services approved by the Audit Committee in the first quarter are considered by VISX to be audit-related services that closely relate to the financial audit process. Each of the services has been approved in accordance with a pre-approval from the Audit Committee s Chairman pursuant to delegated authority by the Audit Committee.

During the quarterly period covered by this filing, the Committee approved additional engagements and products of KPMG LLP for the following non-audit services and products: tax return preparation, online accounting support tool, and tax matter consultations concerning federal and state taxes.

Item 6. Exhibits

a) Exhibits.

31.1 Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VISX, Incorporated
(Registrant)

May 6, 2005	/s/ Elizabeth H. Dávila Elizabeth H. Dávila Chairman of the Board and Chief Executive Officer
May 6, 2005	/s/ Derek A. Bertocci Derek A. Bertocci Senior Vice President and Chief Financial Officer *(principal financial officer)*
May 6, 2005	/s/ Martyn J. Webster Martyn J. Webster Controller *(principal accounting officer)*

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INDEX TO EXHIBITS

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