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8 UNITED STATES DISTRICT COURT  
9 CENTRAL DISTRICT OF CALIFORNIA  
10 SOUTHERN DIVISION

11 SCOTT KAIRALLA, Individually and )  
12 On Behalf of All Others Similarly )  
Situating, )

13 Plaintiff, )

14 vs. )

15 ADVANCED MEDICAL OPTICS, )  
16 INC., JAMES V. MAZZO, RICHARD )  
A. MEIER, HOLGER HEIDRICH, )  
17 AIMEE S. WEISNER and LEONARD )  
R. BORRMANN, )

18 Defendants. )

**VIA FAX**

No.

**CLASS ACTION**

**COMPLAINT FOR VIOLATION OF  
THE FEDERAL SECURITIES LAWS**

**DEMAND FOR JURY TRIAL**

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1 claiming bacterial contamination had compromised sterility. This caused Advanced  
2 Medical's stock to decline. Defendants moved to assure the market that the problem  
3 was isolated to Asia and that prospects for the Complete product were favorable. In  
4 late April, the Company announced favorable results, including that Complete sales  
5 had risen 23%.

6 5. On this news, the Company's stock reached a high of \$44 per share.

7 6. On May 24, 2007, the Company announced an interest in a potential  
8 acquisition of Bausch & Lomb Inc., offering a superior price than the eye-care  
9 company's previously announced deal to be bought by private equity firm Warburg  
10 Pincus for \$3.67 billion.

11 7. Then on May 25, 2007, after the market closed, the Company issued a  
12 press release entitled "AMO Announces Voluntary Recall of Complete®  
13 MoisturePlus™ Multipurpose Solution." The press release stated in part:

14 In response to information received today from the U.S. Centers for  
15 Disease Control and Prevention (CDC) regarding eye infections from  
16 Acanthamoeba, a naturally occurring water-borne organism which can  
17 contribute to serious corneal infections, Advanced Medical Optics is  
18 immediately and voluntarily recalling its Complete® MoisturePlus™  
19 contact lens solutions. CDC data was made available to AMO today  
20 showing that it had completed interviews with 46 patients who had  
21 developed Acanthamoeba keratitis (AK) since January 2005. A total of  
22 39 of these patients were soft contact lens wearers, 21 of whom reported  
23 using Complete® MoisturePlus™ products. The CDC estimates a risk of  
24 at least seven times greater for those who used Complete®  
25 MoisturePLUS™ solution versus those who did not.

26 While AMO continues to work with the CDC and the U.S. Food  
27 and Drug Administration (FDA) to further assess the data, it is acting  
28 with an abundance of caution to voluntarily recall Complete®

1 MoisturePlus™ from the market. There is no evidence to suggest that  
2 today's voluntary recall is related to a product contamination issue and  
3 this does not impact any of AMO's other contact lens care products,  
4 including our family of hydrogen peroxide disinfecting solutions. As  
5 patient safety is paramount to AMO, the company is taking decisive  
6 action to stop shipments, recall product from the marketplace, and  
7 encourage consumers to discontinue the use of AMO Complete®  
8 MoisturePlus™ until further information is available. Given the potential  
9 seriousness of the reported Acanthamoeba infections, AMO is working  
10 in close partnership with the CDC, the FDA and others to make sure  
11 consumers are aware of the need for proper contact lens disinfection and  
12 proper lens handling.

13 Acanthamoeba is a microorganism commonly found in water, soil,  
14 sewage systems, cooling towers, and heating/ventilation/air conditioning  
15 (HVAC) systems. Acanthamoeba keratitis (AK) is a rare, but serious,  
16 infection of the cornea. AK is usually found among individuals who  
17 improperly store/handle/disinfect their lenses (e.g., use tap water or  
18 homemade solutions for cleaning), swim/use hot tubs/shower while  
19 wearing lenses, come in contact with contaminated water, have minor  
20 damage to their corneas, or have previous corneal trauma. The incidence  
21 of AK in the United States has been estimated by CDC at approximately  
22 one to two cases per million contact lens users.

23 Contact lens wearers should consult with their eye doctor if they  
24 have any of the following symptoms: eye pain, eye redness, blurred  
25 vision, sensitivity to light, sensation of something in the eye, and  
26 excessive tearing. The symptoms, which can last several weeks to  
27 months, are not the same for everybody. Early in the infection, the  
28 symptoms of AK can be very similar to the symptoms of other more

1 common eye infections but AK may eventually cause severe pain and  
2 possible vision loss with some patients requiring a corneal transplant if  
3 untreated.

4 8. The recall of one of Advanced Medical's most important products  
5 shocked the market. Following the Memorial Day weekend, on May 29, 2007,  
6 Advanced Medical's stock collapsed \$5.51 per share to close at \$34.69 per share, a  
7 one-day decline of 14% on volume of 16.2 million shares.

#### 8 **SUMMARY AND PRE-CLASS PERIOD OVERVIEW**

9 9. The U.S. Food and Drug Administration ("FDA") approves drugs for  
10 human use if they are safe and effective as determined through scientifically  
11 conducted clinical studies. Additionally, the U.S. Centers for Disease Control and  
12 Prevention ("CDC") is a governmental agency whose mission is to promote health and  
13 quality of life by preventing and controlling, disease, injury, and disability.  
14 Throughout the Class Period, Complete was manufactured and sold by Advanced  
15 Medical to clean, rinse, store, disinfect and remove protein from soft contact lenses  
16 and was represented as the "first and only multi-purpose solution that contains two-  
17 tear like moisturizers, electrolytes and taurine."

18 10. Defendants violated the federal securities laws by disseminating false and  
19 misleading statements to the investing public and concealing negative information,  
20 making it impossible for shareholders to gain a meaningful or realistic understanding  
21 of the product risks and long-term market success. Each of these misleading  
22 statements, in the form of press releases, conference calls and SEC filings, was well  
23 timed and calculated. Each such statement regarding the Company's profitable  
24 contact lens solution, Complete, was tailored to deceive shareholders and to inflate the  
25 value of the Company. In November 2006, the Company had announced a voluntary  
26 recall of certain eye care product lots and the related manufacturing capacity  
27 constraints caused by a production-line issue at its manufacturing plant in China. By  
28

1 the beginning of the Class Period, the defendants had successfully convinced the  
2 market that problems with Complete were in the past.

3 11. As a result of defendants' false statements, Advanced Medical stock  
4 traded at inflated levels during the Class Period, during which time the Company's top  
5 officers and directors were able to reap more than \$6.8 million in insider trading  
6 proceeds.

### 7 **THE PARTIES**

8 12. Plaintiff Scott Kairalla purchased Advanced Medical common stock as  
9 described in the attached certification and was damaged thereby.

10 13. Defendant Advanced Medical engages in the development, manufacture  
11 and marketing of medical devices for the eye. The Company has three product lines:  
12 cataract/implant, laser vision correction, and eye care. Advanced Medical's corporate  
13 headquarters is located in Santa Ana, California.

14 14. Defendant James V. Mazzo ("Mazzo") is, and at all relevant times was,  
15 Chairman of the Board, President and Chief Executive Officer ("CEO") of the  
16 Company. By reason of his position, Mazzo had access to material inside information  
17 about Advanced Medical and was able to control directly or indirectly the acts of  
18 Advanced Medical and the contents of the representations disseminated during the  
19 Class Period by or in the name of Advanced Medical. During the Class Period,  
20 Mazzo reaped nearly \$3 million in insider trading proceeds by selling 71,430 shares of  
21 his Advanced Medical stock at artificially inflated prices.

22 15. Defendant Richard A. Meier ("Meier") is, at and all relevant times was,  
23 Chief Financial Officer ("CFO") and Chief Operating Officer ("COO") of the  
24 Company. By reason of his position, Meier had access to material inside information  
25 about Advanced Medical and was able to control directly or indirectly the acts of  
26 Advanced Medical and the contents of the representations disseminated during the  
27 Class Period by or in the name of Advanced Medical.

28

1           16. Defendant Holger Heidrich (“Heidrich”) is, and at all relevant times was,  
2 Corporate Vice President and President, EAM and International Government Affairs  
3 of Advanced Medical. By reason of his position, Heidrich had access to material  
4 inside information about Advanced Medical and was able to control directly or  
5 indirectly the acts of Advanced Medical and the contents of the representations  
6 disseminated during the Class Period by or in the name of Advanced Medical. During  
7 the Class Period, Heidrich reaped \$3.9 million in insider trading proceeds by selling  
8 95,875 shares of his Advanced Medical stock at artificially inflated prices, all sold  
9 within three weeks of Advanced Medical’s recall announcement.

10           17. Defendant Aimee S. Weisner (“Weisner”) is, and at all relevant times  
11 was, Executive Vice President, Administration, General Counsel, Chief Ethics Officer  
12 and Secretary of Advanced Medical. By reason of her positions, Weisner had access  
13 to material inside information about Advanced Medical and was able to control  
14 directly or indirectly the acts of Advanced Medical and the contents of the  
15 representations disseminated during the Class Period by or in the name of Advanced  
16 Medical.

17           18. Defendant Leonard R. Borrmann (“Borrmann”) is, and at all relevant  
18 times was, Executive Vice President, Research and Development. By reason of his  
19 position, Borrmann had access to material inside information about Advanced  
20 Medical and was able to control directly or indirectly the acts of Advanced Medical  
21 and the contents of the representations disseminated during the Class Period by or in  
22 the name of Advanced Medical.

23           19. The defendants named in ¶¶14-18 are sometimes referred to herein as the  
24 “Individual Defendants.

25           20. The defendants are liable, jointly and severally, as direct participants in  
26 the scheme and wrongs complained of herein. Defendants had a duty promptly to  
27 disseminate accurate and truthful information with respect to Advanced Medical’s  
28 products, operations, financial condition and future business prospects or to cause and

1 direct that such information be disseminated so that the market prices of Advanced  
2 Medical's stock would be based on truthful and accurate information.

### 3 **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

4 21. In addition to the above-described involvement, each defendant had  
5 knowledge of Advanced Medical's problems and was motivated to conceal such  
6 problems. Defendant Mazzo, as a director, Chairman, President and CEO, was  
7 responsible for the financial results and press releases issued by the Company.

8 22. Each defendant is liable for (i) making false statements, or (ii) failing to  
9 disclose adverse facts known to them about Advanced Medical. Defendants'  
10 fraudulent scheme and course of business that operated as a fraud or deceit on  
11 purchasers of Advanced Medical common stock was a success, as it (i) deceived the  
12 investing public regarding Advanced Medical's prospects and business; (ii) artificially  
13 inflated the price of Advanced Medical common stock; (iii) allowed defendants to  
14 obtain larger bonuses which were directly tied to the performance of Advanced  
15 Medical; (iv) allowed certain of the Individual Defendants to sell more than \$6.8  
16 million worth of their own Advanced Medical shares; and (v) caused plaintiff and  
17 other members of the Class to purchase Advanced Medical common stock at inflated  
18 prices.

### 19 **BACKGROUND**

20 23. Advanced Medical is engaged in the development, manufacture and  
21 marketing of medical devices for the eye. The Company has three product lines:  
22 cataract/implant, laser vision correction, and eye care. In the cataract and implant  
23 market, it focuses on the four products required for cataract surgery: foldable  
24 intraocular lenses, implantation systems, phacoemulsification systems and  
25 viscoelastics. In the laser vision correction market, the Company markets laser  
26 systems, diagnostic devices, treatment cards and microkeratomes for use in laser eye  
27 surgery. Advanced Medical's eye care product line provides a range of contact lens  
28 care products for use with most types of contact lenses. These products include

1 single-bottle, multi-purpose cleaning and disinfecting solutions, hydrogen peroxide-  
2 based disinfecting solutions, daily cleaners, enzymatic cleaners and contact lens  
3 rewetting drops. In the eye care market, the Company focuses on creating products  
4 that make contact lenses comfortable, simplify contact lens care and promote ocular  
5 health. The Company markets its Complete brand single-bottle multi-purpose  
6 solution for soft contact lenses on a worldwide basis. Complete is a single-bottle,  
7 multi-purpose solution with dual demulcents to help prevent contact lens dryness and  
8 discomfort and promote ocular health.

9       24. Advanced Medical's contact solution products were extremely important  
10 to the Company's business. Multi-purpose solutions represented approximately  
11 14.8%, 17% and 21% of its net sales in 2006, 2005 and 2004, respectively. Complete  
12 contributed \$105.7 million to Advanced Medical's sales in 2006. In late November  
13 2006, Advanced Medical announced a recall of Complete due to manufacturing issues  
14 in China, recalling approximately 2.9 million eyecare units in Asia-Pacific, Japan and  
15 in the U.S. Due to this news, the Company's stock declined to the \$35 per share  
16 range.

17       25. At the beginning of the Class Period, defendants sought to convince the  
18 market that the problem was isolated to Asia, was being corrected and would not be a  
19 long-term problem for the Company.

20       26. In fact, in the conference call following the recall announcement,  
21 defendant Mazzo termed the recall "overbroad," and stated:

22       But we have gone, again, overbroad. We have used four external  
23 consultants to help guide us through this, everyone from a regulatory  
24 expert to a communication expert, to an FDA expert, to a recall expert, to  
25 ensure that we manage this situation at the highest levels.

26       27. Also, during this time period, the incidence of Acanthamoeba keratitis  
27 ("AK"), a potentially blinding infection of the cornea that is closely associated with  
28 contact lens wearers, was increasing. In the case of contact lens wearers, the organism

1 attaches to the contact lens which then acts as a mechanical vector, transmitting the  
2 amoebae onto the corneal surface, where invasion and subsequent infection can occur.

3 28. Defendants recklessly disregarded that the Complete product was not  
4 nearly as effective as peroxide-based systems in protecting against Acanthamoeba  
5 infection.

6 29. As a lens disinfectant – which is the most critical characteristic of any  
7 multi-purpose contact lens solution – Complete was and is vastly inferior to peroxide-  
8 based systems, a fact that Advanced Medical knew for many years based on their own  
9 data as well as the results of published studies. These and other scientific  
10 investigations consistently demonstrated the lack of efficacy of Complete and/or its  
11 active ingredients against Acanthamoeba in both the trophozoite and cyst stages,  
12 alone, and in comparison to peroxide systems. In one reported test result, Complete  
13 was only able to inhibit 10% of Acanthamoeba growth, a clinically insignificant  
14 amount in any lens use context. In other studies, Complete consistently ranked at the  
15 bottom of all products tested. Indeed, this unacceptable level of efficacy was  
16 demonstrated even when tests utilized concentrations of polyhexamethylene biguanide  
17 that were higher than the concentration that is contained in Complete.

18 30. The lack of amoebicidal activity inherent in Complete translated directly  
19 into a disproportionate risk and incidence of AK among consumers using Complete  
20 and increased the likelihood of recall.

21 **DEFENDANTS' FALSE AND MISLEADING**  
22 **STATEMENTS DURING THE CLASS PERIOD**

23 31. On January 4, 2007, defendant Borrmann appeared at the Morgan Stanley  
24 Pharmaceutical “CEOs Unplugged” conference to discuss the Company’s business  
25 and prospects. During the conference he stated:

26 [BORRMANN:] Actually, we’re making outstanding progress  
27 on that. As a follow-up to the recall that we went through in the later  
28 part of last year on selected lots of our complete Moisture PLUS product

1 that were attributed to a couple of manufacturing lines in our China  
2 facility. We went through a comprehensive cleaning and sterilization  
3 process in conjunction with a planned expansion of our China facility.  
4 We are on track to bring three out of the four of our China manufacturing  
5 lines up in February with the final one coming up in May.

6 It will also provide us with some increased capabilities in terms of  
7 packaging and also in terms of small-volume fill size, which is going to  
8 be critical to the manufacturing of our dry eye products scheduled to  
9 launch later this year.

10 So, we are really happy with the progress, and everything is right  
11 on track. I also want to point out that this challenge that we have had,  
12 has been limited exclusively to our China facility. Our Spanish facility  
13 has remained up and running through this entire process and continues to  
14 serve all of our eyecare product requirements for both Europe and for the  
15 United States.

16 32. On February 13, 2007, Advance Medical issued a press release entitled  
17 “Advanced Medical Optics Announces Fourth-Quarter and Full-Year 2006 Results.”  
18 The press release stated in part:

19 – 2006 Net Sales Rise 8.3% to \$997.5 Million; 2006 GAAP  
20 EPS of \$1.21

21 \* \* \*

22 – 2006 Eye Care Sales Decline 13.1% Due to Rationalization  
23 and Recall

24 – Company Reiterates 2007, 2008 Revenue and Adjusted  
25 EPS Guidance

26 – Company Begins 2007 with Announcements of Strategic  
27 Acquisitions of IntraLase and WaveFront Sciences

28



1 Fourth-Quarter Results

2 Fourth-quarter 2006 net sales of \$243.6 million represented a 3.6  
3 percent decline compared to the same quarter last year. The fourth-  
4 quarter net loss of \$7.6 million, or a loss of \$0.13 per share, was due  
5 primarily to recall-related sales declines, product returns and costs, and  
6 the tax effect of these issues. Final repositioning costs and the unrealized  
7 loss on derivative instruments increased the per share loss by \$0.03. This  
8 performance compares to net income of \$2.3 million, or \$0.03 per share,  
9 in the same period last year. The fourth-quarter 2005 results were  
10 reduced by \$0.37 due to the combined effect of after-tax charges of  
11 \$25.8 million primarily related to rationalization and repositioning  
12 actions, as well as a tax benefit of \$5.7 million for repatriation of foreign  
13 earnings and an unrealized gain on derivative instruments.

14 \* \* \*

15 Eye Care Overview

16 After successfully rationalizing and repositioning the eye care  
17 business, expanding market share and preparing to launch two new  
18 products in 2007, further progress was delayed by the recall late in 2006.

19 Last November, the company commenced a recall of  
20 approximately 2.9 million units of its eye care products from the Asia  
21 Pacific, Japan and U.S. markets due to a production-line issue at its  
22 China manufacturing facility. To resolve the recall, the company also  
23 announced a 10-12 week plant closure to clean and sanitize the facility  
24 and conduct an already-planned expansion, which is now nearing  
25 completion. Production has resumed on two of the four manufacturing  
26 lines and the company expects to begin shipping to its distribution  
27 centers in Japan this week. The third line is expected to commence  
28 operation this month, with shipping to Asia Pacific planned to

1 commence prior to the end of the first quarter of 2007. The fourth line,  
2 which provides enhanced packaging capabilities, is expected to resume  
3 production in the second quarter of 2007, consistent with the original  
4 timeline. Production for the U.S. and European markets was  
5 uninterrupted during the recall as these markets are supplied by the  
6 company's facility in Spain, which was not affected by the production-  
7 line issue.

8 As a result of the recall, the company estimated an impact to  
9 fourth-quarter and 2006 eye care sales of approximately \$25 million,  
10 which was slightly higher than originally estimated due to higher returns.  
11 The \$25 million impact included approximately \$10 million in returns  
12 and an estimate of \$15 million in lost sales. The company anticipates that  
13 it will lose an additional \$20 million to \$25 million in sales in 2007. In  
14 addition, the company incurred approximately \$15 million in costs  
15 associated with the recall, which were recognized in cost of goods sold  
16 and SG&A expense in the fourth quarter and full year. The company  
17 anticipates that it will incur an additional \$20 million to \$25 million in  
18 recall-related costs in 2007.

19 For 2006, eye care sales declined 13.1 percent versus 2005 to  
20 \$261.6 million, reflecting the impact of the recall, declines in hydrogen  
21 peroxide solution sales and lost sales associated with planned product  
22 rationalizations. These same factors caused fourth-quarter eye care sales  
23 to decline 20.2 percent to \$53.0 million versus the same period last year.  
24 The impact of foreign currency caused a 0.5 percent decline for the year  
25 and a 2.8 percent increase for the fourth quarter. Below are eye care sales  
26 highlights. Growth rates reflect comparisons to the same period in 2005  
27 and include the impacts of foreign currency.  
28

- 1           –     Multipurpose solution sales declined 4.7 percent to \$147.2  
2                     million as growth in the first nine months of the year was  
3                     offset by the recall. Fourth-quarter multipurpose solutions  
4                     sales declined 26.4 percent.
- 5           –     *U.S. sales of COMPLETE® MoisturePlus™ rose 48.1*  
6                     *percent for the year and 25.7 percent in the fourth*  
7                     *quarter. According to IRI, an independent market*  
8                     *research firm, COMPLETE® MoisturePlus™ dollar*  
9                     *share of the U.S. branded multipurpose solution market*  
10                    *was 12.8 percent for the four weeks ended January 28,*  
11                    *2007, representing an approximate 11 percent increase*  
12                    *since the beginning of 2006.*
- 13          –     Sales of hydrogen peroxide solutions declined 19.4 percent  
14                     to \$62.3 million. Fourth-quarter hydrogen peroxide solution  
15                     sales declined 23.6 percent to \$13.9 million. The declines  
16                     reflect this market’s contraction in Japan and Europe, and  
17                     the impact of the planned product rationalization.
- 18          –     Sales of other eye care products declined 24.7 percent to  
19                     \$52.1 million in 2006. Fourth-quarter sales for this category  
20                     declined 3.2 percent to \$15.2 million. The declines reflect  
21                     the planned rationalization of older-generation products.

22           33.    Subsequent to issuing its results, Advanced Medical hosted a conference  
23    call for analysts, media representatives and investors during which defendant Meier  
24    represented the following:

25                    From a regulatory perspective, we continue to be on track as well.  
26                    Throughout the recall process, AMO has maintained excellent relations  
27                    with all regulatory bodies around the world. To date we have closed the  
28                    recall initiatives with a number of these regulatory groups in the Asia-

1 Pacific region. We expect to close the issue with both the China and  
2 Japanese agencies over the next three or four weeks, and are targeting  
3 the end of March, early April, to conclude our recall activities with the  
4 FDA.

5 From an inspection point of view, the China officials have been  
6 through the facilities and given approvals. As of today, the FDA has not  
7 requested an inspection. We have worked with various consultants to  
8 validate and test our processes and procedures and we believe we are  
9 well prepared for any future plant inspections.

10 34. Defendants' statements about the Chinese facility were important to  
11 analysts. Prudential Equity Group noted in its February 13, 2007 report:

12 The ramp up of the lens care solutions factory in China is ahead of  
13 schedule. EYE is nearing the completion of the plant cleaning and has  
14 resume production on 2 of the 4 manufacturing lines. EYE expects to  
15 begin shipments to Japan this week, which is ahead of our expectation.  
16 EYE also plans to have the 3rd line operational this month and begin  
17 shipments to Asia/Pacific in March, which is in line with its previous  
18 schedule. The 4th line is expected to resume operations in 2Q07, which  
19 is also consistent with prior expectations. We view this update as a  
20 significant positive for EYE, given that by our calculations (assuming  
21 G&A costs are sunk) we estimate that for every additional month the  
22 factory does not ship product, EYE will forgo about \$4M in sales, worth  
23 about \$0.04 to EPS. In 2007, EYE expects to lose \$20-25M in sales and  
24 record \$20-25M in additional costs associated with the recall. The costs  
25 will be evenly split between 1Q and 2Q, with some charges possibly  
26 running into 3Q.

1           35.    On March 1, 2007, Advanced Medical filed its 2006 Form 10-K, which  
2 contained the results previously reported and also stated the following about potential  
3 product recalls:

4           The FDA and similar governmental authorities in the other countries  
5 have the authority to require the recall of our products in the event of  
6 material deficiencies or defects in design or manufacturing. A  
7 government mandated or voluntary recall by us could occur as a result of  
8 manufacturing errors or design defects, including defects in labeling.  
9 We have undertaken voluntary recalls of our products in the past.

10          36.    In fact, by this time defendants knew that the incidence of AK was  
11 increasing, was severe and was associated with use of solutions such as Complete, and  
12 as such a recall was not just a future potentiality but a significant likelihood.

13          37.    On April 25, 2007, the Company issued a press release entitled  
14 “Advanced Medical Optics Announces First-Quarter 2007 Results – GAAP EPS of  
15 \$0.20 Includes Approximately \$0.03 in Non-Cash Acquisition-Related Charges – Net  
16 Sales Rise 5.6% to \$251.7 Million on Growth in Company’s Three Business Units –  
17 IOL Sales Up 13.6% to \$75.9 Million on Tecnis® Monofocal IOL and Refractive  
18 Implant Growth – Laser Vision Correction Procedure Sales Climb 12.4% to \$45.6  
19 Million – Eye Care Sales Rise 4.4% to \$59.3 Million As Product Shipments Resume.”  
20 The press release stated in part:

21           Advanced Medical Optics, Inc. (AMO), a global leader in ophthalmic  
22 surgical devices and eye care products, today announced financial results  
23 for the first quarter of 2007.

24           The company’s net sales rose 5.6 percent to \$251.7 million,  
25 including a 2.5 percent increase related to foreign currency. The  
26 company achieved growth across each of its three major business units.

27           AMO reported first-quarter net earnings under Generally Accepted  
28 Accounting Principles (GAAP) of \$12.1 million, or \$0.20 per diluted

1 share, compared to net earnings of \$2.6 million, or \$0.04 per diluted  
2 share in the same period last year.

3 \* \* \*

4 “In the first quarter, we continued to make meaningful progress to  
5 establish AMO as the global refractive company,” said Jim Mazzo,  
6 AMO chairman, president and chief executive officer. “Our ReZoom®  
7 and Tecnis® technologies led our intraocular lens growth and continued  
8 to outpace the market, our Advanced CustomVue® technology and  
9 international expansion of the per-procedure model drove laser vision  
10 correction sales to new highs, and we made strides to reclaim market  
11 share in our eye care business. Moreover, the WaveFront Sciences and  
12 IntraLase acquisitions demonstrate our commitment to providing  
13 refractive technologies that deliver superior outcomes, and accentuate  
14 our focus on building the refractive market, where procedures are  
15 elective and priced at their market value.”

16 \* \* \*

17 Eye Care sales rose 4.4 percent to \$59.3 million.

- 18 – Multipurpose sales rose 4.7 percent to \$33.9 million.
- 19 – U.S. COMPLETE® MoisturePlus™ solution sales rose  
20 23.1 percent to \$12.6 million, reflecting favorable market  
21 share growth trends.
- 22 – Eye care sales declined 29.3 percent and 15.1 percent in  
23 Asia Pacific and Japan, respectively, reflecting the impacts  
24 of the voluntary recall and temporary shutdown of the  
25 company’s manufacturing plant in China in late 2006.
- 26 – Hydrogen peroxide sales declined 2.6 percent to \$13.8  
27 million, reflecting the continued contraction of this market  
28 in Japan and Europe.

1 Eye Care Manufacturing Update

2 During the quarter, production resumed as planned on three of the  
3 four manufacturing lines at the company's China facility, which supplies  
4 primarily the Japanese and Asia Pacific markets. Eye care product  
5 shipments also resumed to these markets during the first quarter. The  
6 company expects to experience some supply shortages in Asia Pacific  
7 and Japan through the second quarter of 2007, as supply ramps up to  
8 meet demand. The plant's fourth line is scheduled to begin production in  
9 the next 30 to 45 days, consistent with the company's original schedule.  
10 Production at the company's eye care manufacturing facility in Spain,  
11 which supplies North American and European markets, continued  
12 uninterrupted during this time.

13 The U.S. Food and Drug Administration (FDA) plans to conduct  
14 routine inspections of AMO's eye care manufacturing facilities in Spain  
15 and China during May and June 2007. AMO had indicated previously  
16 that such inspections were expected. The company is cooperating fully  
17 with the FDA and does not anticipate any impact to production as a  
18 result of the inspections.

19 \* \* \*

20 Additional First-Quarter Highlights

21 Below are additional highlights of first-quarter 2007 results.  
22 Growth rates reflect comparisons to the same period one year ago.

- 23 – Gross profit rose 4.0 percent and included a \$2.3 million  
24 negative impact from the recall and a \$4.7 million non-cash  
25 charge related to the termination of the Amadeus™  
26 microkeratome distribution agreement. AMO decided to  
27 exit the mechanical microkeratome business effective May  
28 1, following the completion of the IntraLase acquisition.

1 Gross profit in the year-ago quarter included \$3.2 million in  
2 charges related to rationalization and repositioning  
3 initiatives.

4 38. Subsequent to issuing its results, Advanced Medical hosted a conference  
5 call for analysts, media representatives and investors during which defendants  
6 represented the following:

7 [MEIER:] Let me also update you on the launch of our next-  
8 generation Complete. Our original plan was to produce this product only  
9 at the Spain facility. Using lessons learned from the recall, we have now  
10 decided to expand validation activities to include both plants. This means  
11 we will delay our launch by one quarter to the first quarter of 2008 to  
12 ensure that we can meet anticipated demand and have adequate retail  
13 presence.

14 \* \* \*

15 [MAZZO:] Let me close by saying that we continue to be  
16 optimistic about the near-term and long-term potential of our Company.  
17 As you can see, we have multiple opportunities to achieve our financial  
18 goals. Moving forward, we're focused on integrating the IntraLase  
19 business, on getting the manufacturing plant in China fully operational,  
20 continuing to transition our monofocal intraocular lenses to the Tecnis  
21 franchise, launching differentiated new products and aggressively  
22 pursuing opportunities to grow the procedure market and our share with  
23 our integrated refractive offering of refractive IOLs and laser  
24 technologies using our combination of refractive IOLs and lasers.

25 39. These positive statements were misleading due to Advanced Medical's  
26 failure to inform the market of the risk of potentially serious eye infections from using  
27 Complete, which was a no-rub product and did not eliminate Acanthamoeba – a  
28 disclosure which would have undercut the positive statements. As a result, the

1 Company's stock performed well, permitting the Individual Defendants to sell their  
2 Advanced Medical stock for proceeds of \$6.8 million while the stock was inflated.

3 40. On May 24, 2007, the Company announced interest in the purchase of  
4 Bausch and Lomb, stating in part:

5 "We believe it is only logical to explore this opportunity given the  
6 highly complementary nature of our two businesses. Consideration of  
7 this potential transaction is consistent with our existing strategy to  
8 provide a full range of products that address vision care needs of people  
9 of all ages. We believe that the current transaction with Warburg Pincus  
10 undervalues Bausch & Lomb, and we plan to enter the go-shop process  
11 with the intention of exploring a superior offer for the company. Of  
12 course, we will only proceed with a transaction if after conducting  
13 thorough due diligence, our Board of Directors determines it is in the  
14 best interest of AMO stockholders."

15 41. On May 25, 2007, Advanced Medical's stock closed at \$40.20 per share.

16 42. Then, on May 25, 2007, after the market closed, the Company issued a  
17 press release entitled "AMO Announces Voluntary Recall of Complete®  
18 MoisturePlus™ Multipurpose Solution." The press release stated in part:

19 In response to information received today from the U.S. Centers for  
20 Disease Control and Prevention (CDC) regarding eye infections from  
21 Acanthamoeba, a naturally occurring water-borne organism which can  
22 contribute to serious corneal infections, Advanced Medical Optics is  
23 immediately and voluntarily recalling its Complete® MoisturePlus™  
24 contact lens solutions. CDC data was made available to AMO today  
25 showing that it had completed interviews with 46 patients who had  
26 developed Acanthamoeba keratitis (AK) since January 2005. A total of  
27 39 of these patients were soft contact lens wearers, 21 of whom reported  
28 using Complete® MoisturePlus™ products. The CDC estimates a risk of

1 at least seven times greater for those who used Complete®  
2 MoisturePLUS™ solution versus those who did not.

3 While AMO continues to work with the CDC and the U.S. Food  
4 and Drug Administration (FDA) to further assess the data, it is acting  
5 with an abundance of caution to voluntarily recall Complete®  
6 MoisturePlus™ from the market. There is no evidence to suggest that  
7 today's voluntary recall is related to a product contamination issue and  
8 this does not impact any of AMO's other contact lens care products,  
9 including our family of hydrogen peroxide disinfecting solutions. As  
10 patient safety is paramount to AMO, the company is taking decisive  
11 action to stop shipments, recall product from the marketplace, and  
12 encourage consumers to discontinue the use of AMO Complete®  
13 MoisturePlus™ until further information is available. Given the potential  
14 seriousness of the reported Acanthamoeba infections, AMO is working  
15 in close partnership with the CDC, the FDA and others to make sure  
16 consumers are aware of the need for proper contact lens disinfection and  
17 proper lens handling.

18 Acanthamoeba is a microorganism commonly found in water, soil,  
19 sewage systems, cooling towers, and heating/ventilation/air conditioning  
20 (HVAC) systems. Acanthamoeba keratitis (AK) is a rare, but serious,  
21 infection of the cornea. AK is usually found among individuals who  
22 improperly store/handle/disinfect their lenses (e.g., use tap water or  
23 homemade solutions for cleaning), swim/use hot tubs/shower while  
24 wearing lenses, come in contact with contaminated water, have minor  
25 damage to their corneas, or have previous corneal trauma. The incidence  
26 of AK in the United States has been estimated by CDC at approximately  
27 one to two cases per million contact lens users.  
28

1 Contact lens wearers should consult with their eye doctor if they  
 2 have any of the following symptoms: eye pain, eye redness, blurred  
 3 vision, sensitivity to light, sensation of something in the eye, and  
 4 excessive tearing. The symptoms, which can last several weeks to  
 5 months, are not the same for everybody. Early in the infection, the  
 6 symptoms of AK can be very similar to the symptoms of other more  
 7 common eye infections but AK may eventually cause severe pain and  
 8 possible vision loss with some patients requiring a corneal transplant if  
 9 untreated.

10 43. The stock immediately collapsed on May 29, 2007, dropping \$5.51 per  
 11 share on volume of 16.2 million shares.

12 44. In fact, defendants statements about Complete were materially false and  
 13 misleading due to defendants' failure to disclose relevant information, including that:

14 (a) the increased incidence of AK, along with its prevalence among  
 15 soft contact users was a significant problem for future sales of Complete;

16 (b) the fact that Complete was a no-rub product increased the risk that  
 17 a recall would be necessary; and

18 (c) the Company's future results would not be as favorable as  
 19 expected due to the increasing problems associated with Complete and AK.

20 **DEFENDANTS' INSIDER TRADING**

21 45. While Advanced Medical's stock was artificially inflated due to the  
 22 concealment of Complete's failure to eliminate Acanthamoeba, certain of the  
 23 Individual Defendants sold their Advanced Medical stock to benefit from the  
 24 inflation:

25	Defendants	Date Sold	Shares	Price	Proceeds
26	Heidrich	5/10/07	95,875	\$41.09-41.87	\$3,947,618
27	Mazzo	4/27/07	<u>71,430</u>	\$41.31	<u>\$2,950,773</u>
28	<b>TOTAL</b>		<b>167,305</b>		<b>\$6,898,391</b>

1 **CLASS ACTION ALLEGATIONS**

2 46. This is a class action on behalf of those who purchased or otherwise  
3 acquired Advanced Medical common stock during the Class Period, excluding  
4 defendants, directors and officers of the Company and their families and affiliates (the  
5 “Class”). Class members are so numerous that joinder of them is impracticable. At  
6 all relevant times, the markets for Advanced Medical and common stock were  
7 efficient.

8 47. Common questions of law and fact predominate and include whether  
9 defendants: (i) violated the 1934 Act; (ii) omitted and/or misrepresented material  
10 facts; (iii) knew or recklessly disregarded that their statements were false; and  
11 (iv) artificially inflated Advanced Medical’s stock and the extent of and appropriate  
12 measure of damages.

13 48. Plaintiff’s claims are typical of those of the Class. Prosecution of  
14 individual actions would create a risk of inconsistent adjudications. Plaintiff will  
15 adequately protect the interests of the Class. A class action is superior to other  
16 available methods for the fair and efficient adjudication of this controversy.

17 **LOSS CAUSATION/ECONOMIC LOSS**

18 49. During the Class Period, as detailed herein, defendants engaged in a  
19 scheme to deceive the market and a course of conduct that artificially inflated  
20 Advanced Medical’s stock price and operated as a fraud or deceit on Class Period  
21 purchasers of Advanced Medical stock by concealing the link between Compete and  
22 the potential risk of developing a serious eye infection, known as AK, an infection  
23 caused by a parasite. Later, however, when defendants’ prior misrepresentations and  
24 fraudulent conduct were disclosed and became apparent to the market, Advanced  
25 Medical stock fell precipitously as the prior artificial inflation came out of Advanced  
26 Medical’s stock price. As a result of their purchases of Advanced Medical stock  
27 during the Class Period, plaintiff and other members of the Class suffered economic  
28 loss, *i.e.*, damages, under the federal securities laws.

1           50. Defendants' false and misleading statements had the intended effect and  
2 caused Advanced Medical stock to trade at artificially inflated levels throughout the  
3 Class Period, reaching as high as \$44.00 per share.

4           51. On May 25, 2007, after the market closed, investors and the market  
5 became aware that Advanced Medical's statements had been false and misleading and  
6 that Advanced Medical's actual business prospects, which had long been obfuscated  
7 by the failure to disclose the problems with Complete, were not as represented, the  
8 prior artificial inflation came out of Advanced Medical's stock price, damaging  
9 investors.

10           52. As a direct result of defendants' admissions and the public revelations  
11 regarding the truth about Advanced Medical's eyecare solution, Complete, and its link  
12 to potentially serious eye infections, Advanced Medical's stock price plummeted  
13 nearly 15%, on unusually high volume, falling from \$40.20 per share at the open on  
14 May 25, 2007 to as low as \$34.37 per share before closing at \$34.69 on May 29, 2007,  
15 a one-day (May 25th was a Friday and the market was closed for Memorial Day on  
16 May 28th) drop of \$5.51 per share. This drop removed the inflation from Advanced  
17 Medical's stock price, causing real economic loss to investors who had purchased the  
18 stock during the Class Period.

19           53. The 15% decline in Advanced Medical's stock price at the end of the  
20 Class Period was a direct result of the nature and extent of defendants' fraud finally  
21 being revealed to investors and the market. The timing and magnitude of Advanced  
22 Medical's stock price declines negate any inference that the loss suffered by plaintiff  
23 and other Class members was caused by changed market conditions, macroeconomic  
24 or industry factors or Company-specific facts unrelated to the defendants' fraudulent  
25 conduct. During the same day in which Advanced Medical's stock price fell 15%  
26 from \$40.20 per share as a result of defendants' fraud being revealed, the Standard &  
27 Poor's 500 securities index was up. The economic loss, *i.e.*, damages, suffered by  
28 plaintiff and other members of the Class was a direct result of defendants' fraudulent

1 scheme to artificially inflate Advanced Medical's stock price and the subsequent  
2 significant decline in the value of Advanced Medical's stock when defendants' prior  
3 misrepresentations and other fraudulent conduct was revealed.

#### 4 **COUNT I**

#### 5 **For Violation of Section 10(b) of the 1934 Act** 6 **Against All Defendants**

7 54. Plaintiff incorporates ¶¶1-53 by reference.

8 55. During the Class Period, defendants disseminated or approved the false  
9 statements specified above, which they knew or deliberately disregarded were  
10 misleading in that they contained misrepresentations and failed to disclose material  
11 facts necessary in order to make the statements made, in light of the circumstances  
12 under which they were made, not misleading.

13 56. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

14 (a) Employed devices, schemes, and artifices to defraud;

15 (b) Made untrue statements of material facts or omitted to state  
16 material facts necessary in order to make the statements made, in light of the  
17 circumstances under which they were made, not misleading; or

18 (c) Engaged in acts, practices, and a course of business that operated  
19 as a fraud or deceit upon plaintiff and others similarly situated in connection with their  
20 purchases of Advanced Medical common stock during the Class Period.

21 57. Class members were damaged. In reliance on the integrity of the market,  
22 they paid artificially inflated prices for Advanced Medical stock.

23 58. The undisclosed adverse information concealed by defendants during the  
24 Class Period is the type of information which, because of SEC regulations, regulations  
25 of the national stock exchanges and customary business practice, is expected by  
26 investors and securities analysts to be disclosed and is known by corporate officials  
27 and their legal and financial advisors to be the type of information which is expected  
28 to be and must be disclosed.



