

STAAR SURGICAL CO  
Form 10-Q  
November 04, 2008

---

---

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

---

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended: September 26, 2008**
- Or
- 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: 0-11634**

---

**STAAR SURGICAL COMPANY**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**95-3797439**  
*(I.R.S. Employer  
Identification No.)*

**1911 Walker Avenue**  
**Monrovia, California 91016**  
*(Address of principal executive offices)*

**(626) 303-7902**  
*(Registrant's telephone number, including area code)*

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer     Accelerated filer     Non-accelerated filer     Smaller reporting company

Edgar Filing: STAAR SURGICAL CO - Form 10-Q

(Do not check if a smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The registrant has 29,496,494 shares of common stock, par value \$0.01 per share, issued and outstanding as of November 4, 2008.

---

**STAAR SURGICAL COMPANY****INDEX**

	PAGE NUMBER
<b>PART I – FINANCIAL INFORMATION</b>	
Item 1.	Financial Statements (Unaudited).
	Condensed Consolidated Balance Sheets – September 26, 2008 and December 28, 2007. 1
	Condensed Consolidated Statements of Operations – Three and Nine Months Ended September 26, 2008 and September 28, 2007. 2
	Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 26, 2008 and September 28, 2007. 3
	Notes to the Condensed Consolidated Financial Statements. 4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations. 18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk. 34
Item 4.	Controls and Procedures. 34
<b>PART II – OTHER INFORMATION</b>	
Item 1.	Legal Proceedings. 35
Item 1A.	Risk Factors. 35
Item 6.	Exhibits. 37
Signatures	38

---

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except par value amounts)  
(Unaudited)

	September 26, 2008	December 28, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,697	\$ 10,895
Short-term investments – restricted	—	150
Accounts receivable, net	10,076	6,898
Inventories	15,821	12,741
Prepays, deposits and other current assets	1,962	1,610
Total current assets	34,556	32,294
Property, plant and equipment, net	5,921	5,772
Intangible assets, net	6,383	3,959
Goodwill	7,773	7,534
Advance payment for acquisition of Canon Staar	—	4,000
Other assets	1,028	620
Total assets	\$ 55,661	\$ 54,179
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Line of credit	\$ 1,880	\$ —
Accounts payable	6,363	4,823
Obligations under capital leases – current	896	822
Deferred income taxes – current	105	102
Other current liabilities	6,932	5,541
Total current liabilities	16,176	11,288
Note payable – long-term, net of discount	4,346	4,166
Obligations under capital leases – long-term	1,184	1,311
Deferred income taxes – long-term	690	570
Other long-term liabilities	1,715	619
Total liabilities	24,111	17,954
Commitments and contingencies (Note 14)		
Series A redeemable convertible preferred stock, \$0.01 par value; 10,000 shares authorized, 1,700 and no shares issued and outstanding at September 26, 2008 and December 28, 2007; respectively. Liquidation value \$6,800.	6,764	—
Stockholders' equity:		

Edgar Filing: STAAR SURGICAL CO - Form 10-Q

Common stock, \$0.01 par value; 60,000 shares authorized; issued and outstanding 29,496 at September 26, 2008 and 29,488 at December 28, 2007	295	295
Additional paid-in capital	138,450	137,075
Accumulated other comprehensive income	2,472	1,551
Accumulated deficit	(116,431)	(102,696)
Total stockholders' equity	24,786	36,225
Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$ 55,661	\$ 54,179

*See accompanying notes to the condensed consolidated financial statements.*

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 26, 2008	September 28, 2007	September 26, 2008	September 28, 2007
Net sales	\$ 18,112	\$ 13,629	\$ 56,737	\$ 43,478
Cost of sales	7,654	6,859	26,990	22,176
Gross profit	10,458	6,770	29,747	21,302
General and administrative	3,480	2,868	11,441	9,581
Marketing and selling	6,514	5,775	20,627	17,223
Research and development	1,890	1,743	5,965	4,987
Loss on settlement of pre-existing distribution arrangement	—	—	3,850	—
Operating loss	(1,426)	(3,616)	(12,136)	(10,489)
Other income (expense):				
Equity in operations of joint venture	—	(365)	—	(280)
Interest income	47	134	138	322
Interest expense	(222)	(128)	(645)	(445)
Loss on foreign currency exchange	(473)	(94)	(329)	(118)
Other (expense), net	63	44	130	(359)
Other expense, net	(585)	(409)	(706)	(880)
Loss before provision (benefit) for income taxes	(2,011)	(4,025)	(12,842)	(11,369)
Provision (benefit) for income taxes	239	(195)	893	339
Net loss	\$ (2,250)	\$ (3,830)	\$ (13,735)	\$ (11,708)
Loss per share – basic and diluted	\$ (0.08)	\$ (0.13)	\$ (0.47)	\$ (0.42)
Weighted average shares outstanding – basic and diluted	29,490	29,374	29,489	27,993

*See accompanying notes to the condensed consolidated financial statements.*

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Nine Months Ended</b>	
	<b>September 26, 2008</b>	<b>September 28, 2007</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (13,735)	\$ (11,708)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation of property, plant and equipment	2,055	1,463
Amortization of intangible assets	625	361
Amortization of discount	180	17
Loss on extinguishment of note payable	—	233
Fair value adjustment of warrant	60	(148)
Loss on disposal of property and equipment	89	150
Equity in operations of joint venture	—	280
Stock-based compensation expense	1,195	1,074
Loss on settlement of pre-existing distribution arrangement	3,850	—
Other	106	107
<b>Changes in working capital, net of effects from purchase of Canon Staar:</b>		
Accounts receivable	(2,482)	630
Inventories	1,613	(242)
Prepays, deposits and other current assets	434	(677)
Accounts payable	(1,892)	(636)
Other current liabilities	665	583
Net cash used in operating activities	(7,237)	(8,513)
<b>Cash flows from investing activities:</b>		
Cash acquired in acquisition of Canon Staar, net of acquisition costs	2,215	—
Acquisition of property, plant and equipment	(802)	(368)
Proceeds from sale of property, plant, and equipment	100	12
Dividend received from joint venture	—	117
Net change in other assets	149	6
Net cash provided by (used in) investing activities	1,662	(233)
<b>Cash flows from financing activities:</b>		
Borrowings under notes payable	—	4,000
Repayment of notes payable	—	(4,000)
Borrowings under lines of credit	3,760	1,812
Repayment of lines of credit	(1,880)	(3,610)
Repayment of capital lease lines of credit	(762)	(444)
Net proceeds from public sale of equity securities	—	16,613
Proceeds from the exercise of stock options	40	584
Net cash provided by financing activities	1,158	14,955
Effect of exchange rate changes on cash and cash equivalents	219	229
(Decrease) increase in cash and cash equivalents	(4,198)	6,438

Edgar Filing: STAAR SURGICAL CO - Form 10-Q

Cash and cash equivalents, at beginning of the period	10,895	7,758
Cash and cash equivalents, at end of the period	\$ 6,697	\$ 14,196

*See accompanying notes to the condensed consolidated financial statements.*



**STAAR SURGICAL COMPANY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 26, 2008**  
**(Unaudited)**

**Note 1 — Basis of Presentation and Significant Accounting Policies**

The condensed balance sheet as of December 28, 2007 included in this report, which has been derived from audited financial statements, and the accompanying unaudited interim condensed consolidated financial statements, have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Commission. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. The condensed consolidated financial statements for the three and nine months ended September 26, 2008 and September 28, 2007, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's financial condition and results of operations. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 28, 2007.

The results of operations for the three and nine months ended September 26, 2008 and September 28, 2007 are not necessarily indicative of the results to be expected for any other interim period or for the entire year.

Each of the Company's reporting periods ends on the Friday nearest to the quarter ending date and generally consists of 13 weeks. Unless the context indicates otherwise "we," "us," the "Company," and "STAAR" refer to STAAR Surgical Company and its consolidated subsidiaries.

*Prior Year Reclassifications*

Certain reclassifications have been made to the prior financial statement information to conform to current period presentation.

*New Accounting Pronouncements*

In October 2008, the Financial Accounting Standards Board ("FASB") issued FSP No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP No. FAS 157-3"), which clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"). However, the disclosure provisions in SFAS No. 154 for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application. This FSP is effective in the Company's fourth quarter of fiscal year 2008. The Company is assessing the impact of this FSP however, management does not believe that the adoption of this FSP will have a material effect on the Company's consolidated financial position and results of operations.

**Note 2 — Acquisition of STAAR Japan**

On December 29, 2007 (the "Closing Date"), during STAAR's 2008 fiscal year, STAAR acquired the remaining 50% of the shares of Canon Staar Co., Inc. ("Canon Staar") that had been owned previously by Canon Inc. and Canon

Marketing Japan Inc. (“Canon Marketing” and, collectively with Canon Inc., the “Canon companies”). In the transaction (the “Acquisition”), STAAR obtained 100% ownership of Canon Staar, which was renamed STAAR Japan, Inc. (“STAAR Japan”) as of the acquisition date. Prior to the Acquisition, Canon Staar was a joint venture owned 50% by STAAR and 50% by the Canon companies and operating under a Joint Venture Agreement since 1988. STAAR accounted for its investment in Canon Staar as an equity method investor. As of the closing date of the Acquisition, STAAR Japan became a wholly owned subsidiary of STAAR, and its financial information was included in STAAR’s consolidated financial statements as of that date. The functional currency of STAAR Japan is the local currency, the Japanese yen. In accordance with SFAS No. 52, “Foreign Currency Translation,” for purposes of consolidation with the Company, assets and liabilities of STAAR Japan have been translated at rates of exchange in effect at the end of the period, except for the acquisition date translation of the assets acquired and liabilities assumed, which were translated using the exchange rate in effect at the closing date of the Acquisition. Sales and expenses of STAAR Japan were translated at the weighted average of exchange rates in effect during the three and nine months ended September 26, 2008. The resulting translation gains and losses are included in accumulated other comprehensive income on the condensed consolidated balance sheet as of September 26, 2008.

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

STAAR Japan's business consists of designing, manufacturing and selling IOLs and injector systems, all of which are sold as integrated Preloaded Injectors. STAAR Japan is also currently seeking approval from the Japanese regulatory authorities to market in Japan STAAR's Visian ICL, Collamer IOL and the AquaFlow Device for treatment of glaucoma.

Through the acquisition STAAR seeks to achieve the following goals:

- to better exploit the Japanese market for STAAR's technology and the worldwide market for the Preloaded Injector technology through greater control of distribution;
- to re-acquire control of worldwide exclusive rights to STAAR's technology, especially the ICL and Collamer IOL, previously licensed to the joint venture on a worldwide non-exclusive basis;
- to eliminate the risk that Canon Staar could become a competitor of STAAR, especially after a change in control of STAAR;
- to increase access to the Preloaded Injector technology; and
- to develop a more effective global R&D strategy by leveraging the combined technical resources in Japan and the U.S. and taking advantage of STAAR Japan's proven expertise in injector design.

The aggregate consideration paid for the acquisition to the Canon companies was as follows (in thousands):

Fair value of redeemable, convertible preferred stock issued by STAAR as consideration for Canon Staar common shares purchased (see Note 11)	\$ 6,800
Cash consideration for Canon Staar common shares purchased	4,000
Transaction costs	1,000
Total acquisition consideration	\$ 11,800

STAAR paid approximately 60% of the total consideration by issuing 1.7 million shares of redeemable, convertible preferred stock on the Closing Date. The fair value of the convertible preferred stock was determined by a valuation of the instrument with the assistance of an appraiser (see Note 11). In addition, STAAR paid the remaining 40% of the total consideration in cash, which was placed on deposit with the Canon companies just prior to the Closing Date and included in STAAR's non-current assets on its consolidated balance sheet as of fiscal year ended December 28, 2007. Application of the \$4.0 million deposit to the purchase price was subject to numerous closing conditions and the deposit was to be fully refunded by the Canon companies if those conditions were not met. Upon completion of the Acquisition on the Closing Date, the deposited funds were credited to the Canon companies as part of the total consideration paid by STAAR. STAAR also incurred and paid approximately \$1 million in direct transaction and related costs.

The Acquisition was accounted for as a "step-acquisition" under EITF Abstracts, Topic No. D-84, "Accounting for Subsequent Investments in an Investee After Suspension of Equity Method Loss Recognition When an Investor Increases Its Ownership Interest from Significant Influence to Control through a Market Purchase of Voting Securities" (Topic No. D-84) and the provisions of SFAS No. 141, "Business Combinations". The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on December 29, 2007 (in thousands):

<b>December 29,</b>	
<b>2007</b>	<b>Useful Lives (years)</b>

Edgar Filing: STAAR SURGICAL CO - Form 10-Q

Cash	\$	3,018	
Accounts receivable		500	
Inventories		4,252	
Prepaid expenses and other current assets		464	
Property, plant and equipment		728	
<b>Intangible assets:</b>			
Customer relationships		1,389	10
Developed technology		882	3 - 10
Patents		601	17 - 21
Total intangible assets		2,872	
Deposits and other long-term assets		715	
Total assets acquired		12,549	
<b>Current liabilities</b>			
Net pension liability		(771)	
Deferred income taxes		(245)	
Other long-term liabilities		(79)	
Total liabilities assumed		(4,599)	
Net assets acquired		7,950	
<b>Loss on settlement of pre-existing distribution arrangement</b>			
		3,850	
Total acquisition consideration	\$	11,800	

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Among the assets of Canon Staar acquired in the Acquisition was cash in the amount of approximately \$3 million, which was reduced by \$803,000 in transaction costs paid during the nine months ended September 26, 2008. The remaining \$2.2 million of net cash obtained in the acquisition is included in STAAR's consolidated statements of cash flows under investing activities for the nine months ended September 26, 2008.

In determining the final purchase price allocation, STAAR considered, among other factors, its intentions for the use of the acquired assets, historical demand for STAAR Japan's products, estimates of future demand for those products, current selling prices of inventories (less estimated costs of completion, disposal and normal profit), developed technologies incorporated in its products, customer relationships, the revenue generating potential of patents and lives of patents. The fair value of intangible assets was primarily based on the income approach. The rate used to discount the net cash flows to their present values was a 10.5% weighted average cost of capital for the business as a whole, and from 12.5% to 14.0% for the individual intangible assets depending on the risk associated with the assets' potential to generate revenue and its projected remaining useful economic life. The weighted average cost of capital was determined after consideration of market rates of return on debt and equity capital of comparable companies, the weighted average return on invested capital and the risk associated with achieving forecast sales related to technology and assets acquired from STAAR Japan. Property, plant and equipment net book value was evaluated at approximate fair value on the acquisition date due to the nature and relative age of the assets acquired. The intangible assets and property, plant and equipment are being amortized and depreciated based on the pattern in which the economic benefits of these assets are being utilized, using the straight-line method. There was no goodwill recorded in the Acquisition because the fair value of the net assets acquired exceeded the price paid in the Acquisition by approximately \$4 million, net of deferred income taxes. This excess amount was allocated on a pro rata basis to offset against the initially determined fair value of intangible assets and property, plant and equipment.

In connection with the Acquisition, STAAR also assumed the net pension liability under STAAR Japan's noncontributory defined benefit pension plan covering substantially all of the permanent, full-time employees of STAAR Japan (see Note 9). Other liabilities assumed by STAAR in the Acquisition mainly consisted of current trade payables and accrued liabilities and estimated deferred tax liabilities, representing the differences between the assigned values and the tax bases of the assets and liabilities recognized in the Acquisition.

In connection with the Acquisition, the material terms of the Joint Venture Agreement and other documents governing the joint venture were terminated. This included the termination of the distribution arrangement of Canon Staar under which Canon Marketing had the exclusive right to distribute Canon Staar's products in Japan prior to the Acquisition. Under the provisions of EITF Abstracts Issue No. 04-1 (EITF 04-1), "Accounting for Preexisting Relationships between the Parties to a Business Combination," in a business combination between two parties that had a pre-existing relationship, that relationship should be evaluated to determine whether a settlement of that relationship exists. Any such settlement requires accounting separate from the business combination. As a result of such an assessment under EITF 04-1, STAAR Japan recorded an approximate \$3.9 million loss at the close of the Acquisition, which is included in operating loss of STAAR's consolidated statements of operations during the nine months ended September 26, 2008. This loss represents the portion of the consideration paid by STAAR for the Acquisition that was deemed to represent the settlement amount of the pre-existing relationship between Canon Staar and the Canon companies, in particular for the termination of the distribution arrangement that, when compared to a comparable at-market arrangement as of the closing date, was deemed unfavorable to STAAR. The amount of the loss was determined using the discounted incremental cash flows income method from the distribution arrangement and a discount rate of 12%.

Because the Acquisition was completed on the first day of STAAR's fiscal year 2008, the results of STAAR Japan are included in the consolidated financial statements of STAAR beginning in the first quarter of the fiscal year. The following table summarizes unaudited pro forma financial information assuming the Acquisition had occurred on

December 30, 2006, in the corresponding period of the fiscal year immediately preceding the Acquisition, that is, as if the Acquisition was completed on STAAR's first day of fiscal year 2007. This unaudited pro forma financial information does not necessarily represent what would have occurred if the transaction had taken place on December 30, 2006, and should not be taken as representative of STAAR's future consolidated results of operations or financial position. STAAR also expects to realize operating synergies. These synergies will come from offering more products across more geographic areas, consolidating manufacturing at optimal sites, and anticipated reduced costs in logistics, marketing, and administration. The pro forma information does not reflect these potential expenses and synergies.

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

(In thousands, except per share amount)	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 28, 2007</b>		<b>September 28, 2007</b>	
Net sales	\$	14,490	\$	48,026
Net loss	\$	(5,738)	\$	(13,868)
Loss per share – basic and diluted	\$	(0.20)	\$	(0.50)

At the close of the Acquisition, the Canon companies and STAAR entered into a Current Employees Secondment Agreement under which Canon Marketing agreed for a term of two years to lease certain employees who had served as officers of Canon Staar to STAAR Japan to serve in the same capacities after the acquisition. STAAR Japan is required to make monthly payments to Canon Marketing for the services provided by the seconded employees in an amount equal to the costs of the employees' salaries and benefits ("fee") as calculated by Canon Marketing, however, the fee may not exceed 69 million Japanese Yen (approximately \$649,000 based on the rate of exchange on September 26, 2008) per annum in the aggregate. Similarly, Canon Marketing and STAAR entered into a New Employees Secondment Agreement under which Canon Marketing agreed for a term of one year to lease to STAAR Japan certain employees who previously conducted the IOL distribution business of Canon Marketing. STAAR Japan is required to make monthly payments to the Canon companies for the services provided by the seconded employees in an amount equal to the costs of the employees' salaries and benefits as calculated by Canon Marketing, however, the fee may not exceed 190 million Japanese Yen (approximately \$1.8 million based on the rate of exchange on September 26, 2008) per annum in the aggregate.

**Note 3 — Short-Term Investments-Restricted**

As of December 28, 2007, the Company's short-term investments consisted of a three-month Certificate of Deposit with a 4.5% interest rate. The short-term investments were used to collateralize capital leases funded under a lease line of credit with Mazuma Capital Corporation. The short-term investments were classified as held to maturity, carried at amortized cost and approximated fair value. During the third quarter of 2008 the Mazuma capital leases were paid off and therefore the restricted cash balance as of September 26, 2008 is zero.

**Note 4 — Inventories**

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market and consisted of the following (in thousands):

	<b>September 26,</b>		<b>December 28,</b>	
	<b>2008</b>		<b>2007</b>	
Raw materials and purchased parts	\$	1,314	\$	914
Work-in-process		2,383		2,035
Finished goods		12,124		9,792
	\$	15,821	\$	12,741

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Note 5 — Prepaids, Deposits, and Other Current Assets**

Prepaids, deposits, and other current assets consisted of the following (in thousands):

	<b>September 26, 2008</b>	<b>December 28, 2007</b>
Prepaids and deposits	\$ 748	\$ 1,330
Other current assets	1,214	280
	<b>\$ 1,962</b>	<b>\$ 1,610</b>

**Note 6 – Intangible Assets, Net**

Intangible assets consisted of the following (in thousands):

	<b>September 26, 2008</b>			<b>December 28, 2007</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Amortized intangible assets:						
Patents and licenses	\$ 12,127	\$ (7,917)	\$ 4,210	\$ 11,489	\$ (7,530)	\$ 3,959
Customer relationships	1,474	(111)	1,363	—	—	—
Developed technology	937	(127)	810	—	—	—
<b>Total</b>	<b>\$ 14,538</b>	<b>\$ (8,155)</b>	<b>\$ 6,383</b>	<b>\$ 11,489</b>	<b>\$ (7,530)</b>	<b>\$ 3,959</b>

During 2008, the Company acquired intangible assets through the acquisition of the remaining interest in STAAR Japan, Inc. (See Note 2). As of September 26, 2008 the gross carrying amount of the intangible assets acquired through the acquisition had increased by \$177,000 as a result of changes in the exchange rate.

**Note 7 – Other Current Liabilities**

Other current liabilities consisted of the following (in thousands):

	<b>September 26, 2008</b>	<b>December 28, 2007</b>
Accrued salaries and wages	\$ 2,983	\$ 1,910
Commissions due to outside sales representatives	438	544
Accrued audit expenses	510	542
Accounts receivable credit balances	568	516
Accrued income taxes	752	363
Accrued insurance	139	334
Accrued legal expenses	243	141
Other*	1,299	1,191



\$ 6,932 \$ 5,541

---

\* No item in "other" above exceeds 5% of total current liabilities.

**Note 8 – Goodwill**

The change in the carrying amount of goodwill for the nine months ended September 26, 2008 is due to the effect of foreign currency translation.

8

---

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Note 9 – Employee Benefits**

The Company has historically maintained a passive pension plan (the “Swiss Plan”) covering employees of its Swiss subsidiary. This plan was previously classified and accounted for as a defined contribution plan. Based on new guidance obtained in the fourth quarter of fiscal 2007 from the Swiss Auditing Chamber’s Auditing Practice Committee and its Accounting Practice Committee with respect to a change in Swiss pension law, the Company concluded that the features of the Swiss Plan now conform to the features of a defined benefit plan. As a result, the Company adopted the recognition and disclosure requirements of Statement of Financial Accounting Standards (“SFAS”) No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans,” an amendment of SFAS Nos. 87, 88, 106 and 132R (“SFAS 158”) on October 1, 2007.

In connection with the Company’s acquisition of the remaining interest in STAAR Japan, Inc., STAAR assumed the net pension liability under STAAR Japan’s noncontributory defined benefit pension plan substantially covering all of the employees of STAAR Japan. STAAR Japan adopted the recognition and disclosure requirements of Statement of Financial Accounting Standards (“SFAS”) No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans,” an amendment of SFAS Nos. 87, 88, 106 and 132R (“SFAS 158”) on December 29, 2007.

The following table summarizes the components of net periodic pension cost recorded for the Company’s defined benefit plans (in thousands):

	<b>Three Months Ended September 26, 2008</b>	<b>Nine Months Ended September 26, 2008</b>
Service cost	\$ 100	\$ 301
Interest cost	37	108
Expected return on plan assets	(32)	(93)
Amortization of unrecognized transition obligation or asset	5	16
Amount of gain recognized due to a settlement or curtailment	(3)	(10)
Recognized actuarial loss	6	18
	<b>\$ 113</b>	<b>\$ 340</b>

During the nine months ended September 26, 2008, the Company made cash contributions totaling approximately \$292,000 to its defined benefit pension plans. The Company expects to make additional cash contributions totaling approximately \$14,000 to its defined benefit pension plans during 2008.

**Note 10 — Credit Facilities***Broadwood Promissory Notes*

On December 14, 2007, the Company borrowed \$5 million from Broadwood Partners, L.P. (“Broadwood”), a stockholder in the Company, pursuant to a Senior Promissory Note (the “Note”) between the Company and Broadwood. The borrowed funds were used to finance the cash consideration and related transaction costs in the Company’s purchase of the remaining interests of the Canon companies in its Canon Staar Co., Inc. joint venture. The Note has a term of three years and bears interest at a rate of 7% per annum, increasing to 20% per annum if there is a default. The

Note is not secured by any collateral, may be pre-paid by the Company at any time without penalty, and is not subject to covenants based on financial performance or financial condition (except for insolvency). The Note provides that, with certain exceptions, the Company will not incur indebtedness senior to or at parity with its indebtedness under the Note without the consent of Broadwood. Based on representations made by Broadwood in the Promissory Note, on the date of the transaction Broadwood beneficially owned 4,396,231 shares of the Company's common stock, comprising 15% of the Company's common stock as of December 14, 2007. Based on publicly available information filed by Broadwood, Neal Bradsher, President of Broadwood Partners, L.P., may have been deemed to beneficially own all of the 4,396,231 shares. As additional consideration for the loan, the Company also entered into a Warrant Agreement with Broadwood (See Note 15). In accordance with Accounting Principles Board ("APB") Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants," the total \$5 million proceeds were allocated to the December 2007 Warrant and Note based on their relative fair values, approximating \$842,000 and \$4.2 million on the issuance date, respectively. The \$842,000 was treated as an additional discount on the loan and is being amortized using the effective interest method over the life of the loan (See Note 15).

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

*Capital Lease Agreements*

The Company's lease agreement with Farnam Street Financial, Inc. ("Farnam"), as amended on October 9, 2006, provides for purchases of up to \$1,500,000 of property, plant and equipment. In accordance with the requirements of SFAS 13 "Accounting for Leases," purchases under this facility are accounted for as capital leases and have a three-year term. Under the agreement, the Company has the option to purchase any item of the leased property at the end of that item's lease term, at a mutually agreed fair value. On April 1, 2007, the Company signed an additional leasing schedule with Farnam, which provides for additional purchases of \$800,000 during fiscal year 2008. The terms of this new schedule conform to the amended agreement dated October 9, 2006. Approximately \$300,000 borrowings related to future purchases are available under this facility as of September 26, 2008.

*Lines of Credit*

The Company's German subsidiary, Domilens, entered into a credit agreement on August 30, 2005. The credit agreement provides for borrowings of up to 100,000 EUR (\$147,000 at the rate of exchange on September 26, 2008), at a rate of 8.5% per annum and does not have a termination date. The credit agreement is automatically renewed on an annual basis based on the same terms. The credit agreement may be terminated by the lender in accordance with its general terms and conditions. The credit facility is not collateralized. There were no borrowings outstanding as of September 26, 2008 and December 28, 2007 and the full amount of the line was available for borrowing as of September 26, 2008.

The Company's Japanese subsidiary, STAAR Japan, has an agreement with Mizuho Bank providing borrowings of up to 400,000,000 Japanese Yen (approximately \$3.8 million based on the rate of exchange on September 26, 2008), at an interest rate equal to the Tokyo short-term prime interest rate (approximately 1.875% as of September 26, 2008) and terminates on April 20, 2009, but may be renewed annually. The credit agreement may be terminated by the lender in accordance with its general terms and conditions. The credit facility is not collateralized. As of September 26, 2008 the Company had 200,000,000 Japanese Yen outstanding on the line of credit (approximately \$1.9 million based on the rate of exchange on September 26, 2008).

*Covenant Compliance*

The Company was in compliance with the covenants of these credit facilities as of September 26, 2008.

**Note 11 — Redeemable, Convertible Preferred Stock**

Under its Certificate of Incorporation the Company has had 10,000,000 shares of "blank check" preferred stock, which the Board of Directors is authorized to issue with such rights, preferences and privileges as the Board may determine. On October 22, 2007, the Board approved the designation of 1,700,000 shares of the preferred stock as Series A Redeemable Convertible Preferred Stock ("Preferred Stock") to be issued in connection with the acquisition of the 50% interest in Canon Staar Co., Inc. which was consummated on December 29, 2007 (see Note 2). On December 29, 2007, the Company issued the 1,700,000 shares of Preferred Stock to the Canon companies as partial consideration for their shares of Canon Staar Co., Inc. at an estimated fair value of \$4.00 per share, or \$6.8 million in the aggregate.

The Preferred Stock is redeemable by the Company at any time on or after the first anniversary of the issuance date at a price of \$4.00 per share plus any accrued or declared but unpaid dividends ("Redemption Price"). The holders of the Preferred Stock have a right, exercisable at any time on or after the third anniversary of the issuance date by a majority vote of the Preferred Stock holders, to require the Company to redeem the Preferred Stock at the Redemption Price.

The Preferred Stock is convertible into shares of the Company's common stock at any time after the issuance date at a one-to-one conversion ratio that is adjustable only for stock splits, combinations, subdivisions, dividends or recapitalizations ("Conversion Ratio"). On the fifth anniversary of the issuance date, the Preferred Stock expires and each share of Preferred Stock will be automatically converted to common stock of the Company at the Conversion Ratio.

The fair value of the Preferred Stock was determined on the issuance date by the Company with the assistance of a valuation specialist using the Binomial Tree option valuation model. This model considers the Preferred Stock to be a derivative asset of the Company's common stock where the preferred stockholder has options to choose certain payoffs that maximize returns and therefore maximize the value of the preferred stock. The payoff available to the preferred stockholder is contingent on the future market value of the Company's common stock. Therefore the model, based on certain significant management assumptions, analyzes various payoff patterns for different possible paths that might be followed by the common stock price over the life of the Preferred Stock until the automatic conversion on the fifth anniversary of the issuance date.

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The significant assumptions used in the valuation were as follows:

Average common stock price*	\$ 3.12
Expected volatility	67.4%
Expected dividend yield	0%
Risk-free interest rate	3.43%
Issuer's call price per share	\$ 4.00
Redemption price per share	\$ 4.00

---

\* Average common stock price used in the valuation represents the average closing market price per share of the Company's common stock a few days before and after the announcement date of the Canon Staar acquisition.

The Company filed and secured effectiveness of a registration statement with the SEC for the public resale of the common stock issuable upon conversion of the Preferred Stock and must maintain effectiveness for the remainder of the two-year period following issuance, subject to permitted suspensions of thirty days up to twice a year under specified circumstances. Other than such permitted suspensions, if the Company fails to keep the registration statement effective for the two-year period, as the holders' sole remedy the Company will be obligated to issue an additional 30,000 shares of common stock to the holders for each calendar month that the Company does not meet this effectiveness requirement ("Penalty Shares"). The Company does not consider the issuance of any Penalty Shares to be likely.

The rights, preferences and privileges of the Preferred Stock are specified in a Certificate of Designation that the Company filed with the Delaware Secretary of State on December 24, 2007. The Preferred Stock does not have voting rights in the election of directors or any other matter, except as may be required under the Delaware General Corporation. However, the Company cannot, without the consent of at least two-thirds of the holders of the Preferred Stock, authorize or issue any other equity security senior to or at parity with the Preferred Stock as to dividend, conversion or redemption rights or liquidation preferences.

The Preferred Stock has the right to participate equally, on an as-converted basis, in any dividend or distribution paid to the common stockholders.

On or prior to the effective date of certain change in control or liquidation events of the Company specified in the Certificate of Designation, the Preferred Stock is redeemable at the option of the holder at the Redemption Price; however, the holder will continue to have the right to convert the Preferred Stock into common stock of the Company until the close of the second business day prior to the effective date of such an event.

In the event of a liquidation of the Company, as defined in the Certificate of Designation, the Preferred Stockholders have a right to receive a distribution equal to the Redemption Price prior to the distribution of any funds to the common stockholders. After payment of the Redemption Price the Preferred Stockholders do not participate in the distribution of the remaining proceeds of the liquidation, which will be distributed to the common stockholders. However, until the effective date of any such liquidation, each Preferred Stockholder may convert its shares to

common stock of the Company and participate in the proceeds of the liquidation to be paid to common stockholders in lieu of the Redemption Price.

On a liquidation or change in control of the Company, if a Preferred Stockholder does not make a timely election to either receive the Redemption Price or convert the Preferred shares to common stock, the Certificate of Designation provides that the Preferred Stockholder will be deemed to have elected the higher in value of the two alternatives, to be calculated as provided in the Certificate of Designation.

Because after the third anniversary of issuance the Preferred Stock is redeemable at the option of the holders, which is not within the control of the Company, the Company has presented the Preferred Stock in the mezzanine section of the consolidated balance sheet in accordance with the provisions of EITF Abstracts, Topic No. D-98 (“Topic D-98”), “Classification and Measurement of Redeemable Securities.” Because the Preferred Stock fair value recorded on the issuance date approximates the redemption price, no further accretion will be required by the Company to redemption value and no subsequent revaluation will be necessary so long as the Preferred Stock is still considered a temporary equity instrument. However, issuance and registration costs of approximately \$48,000 were incurred related to the Preferred Stock, which were offset against the fair value of the Preferred Stock on the issuance date and are being accreted to the redemption value using the interest method with a corresponding charge to Additional Paid-In Capital over a three-year period.

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Note 12 — Stockholders' Equity**

The consolidated interim condensed financial statements include “basic” and “diluted” per share information. Basic per share information is calculated by dividing net loss by the weighted average number of shares outstanding. Diluted per share information is calculated by also considering the impact of potential issuances of common stock on both net income and the weighted number of shares outstanding. Potential issuances of common stock include outstanding stock options, warrants issued to Broadwood and 1,700,000 shares issuable on conversion of the Series A Preferred Stock. Because the Company was in a loss position, potential common shares of 5,744,991 and 5,992,624 for the three and nine months ended September 26, 2008, respectively, and 3,682,298 and 3,403,004 for the three and nine months ended September 28, 2007, respectively, were excluded from the computation as the shares would have had an anti-dilutive effect.

*Comprehensive loss*

The components of comprehensive loss are as follows (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 26, 2008</b>	<b>September 28, 2007</b>	<b>September 26, 2008</b>	<b>September 28, 2007</b>
Net loss	\$ (2,250)	\$ (3,830)	\$ (13,735)	\$ (11,708)
Minimum pension liability adjustment	(51)	—	(58)	—
Foreign currency translation adjustment	(416)	512	979	655
Total comprehensive loss	\$ (2,717)	\$ (3,318)	\$ (12,814)	\$ (11,053)

**Note 13 — Geographic and Product Data**

The Company reports segment information in accordance with SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information” (“SFAS 131”). Under SFAS 131 all publicly traded companies are required to report certain information about the operating segments, products, services and geographical areas in which they operate and their major customers.

The Company markets and sells its products in approximately 50 countries and has manufacturing sites in the United States, Japan and Switzerland. Other than the United States, Germany, Japan, and Korea, the Company does not sell products in any country in which its sales exceed 5% of consolidated sales. Sales are attributed to countries based on location of customers. The composition of the Company’s net sales to unaffiliated customers between those in the United States, Germany, and other locations for each year, is set forth below (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 26, 2008</b>	<b>September 28, 2007</b>	<b>September 26, 2008</b>	<b>September 28, 2007</b>
United States	\$ 4,746	\$ 4,739	\$ 14,468	\$ 14,991
Germany	5,844	5,742	19,260	17,471
Japan	3,127	103	9,608	282
Korea	1,137	262	2,777	1,791
Other	3,258	2,783	10,624	8,943
Total	\$ 18,112	\$ 13,629	\$ 56,737	\$ 43,478



One hundred percent of the Company's sales are generated from the ophthalmic surgical product segment and, therefore, the Company operates as one operating segment for financial reporting purposes. The Company's principal products are intraocular lenses ("IOLs") and ancillary products used in cataract and refractive surgery. The composition of the Company's net sales by surgical line is as follows (in thousands):

12

---

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

	Three Months Ended		Nine Months Ended	
	September 26, 2008	September 28, 2007	September 26, 2008	September 28, 2007
Cataract	\$ 12,913	\$ 10,100	\$ 41,270	\$ 31,956
Refractive	5,085	3,396	14,994	11,059
Glaucoma	114	133	473	463
Total	\$ 18,112	\$ 13,629	\$ 56,737	\$ 43,478

The Company sells its products internationally, which subjects the Company to several potential risks, including fluctuating exchange rates (to the extent the Company's transactions are not in U.S. dollars), regulation of fund transfers by foreign governments, United States and foreign export and import duties and tariffs, and political instability.

**Note 14 — Commitments and Contingencies**

*Litigation*

*Moody v. STAAR Surgical Company; Parallax Medical Systems, Inc. v. STAAR Surgical Company* (California Superior Court, County of Orange, Cases No. 07CC10132 and 07CC10136). On September 21, 2007, Scott C. Moody, Inc. and Parallax Medical Systems, Inc. filed substantially identical complaints against STAAR in the Superior Court of California, County of Orange. Moody and Parallax are former independent regional manufacturer's representatives ("RMRs") of STAAR whose contracts with STAAR expired on July 31, 2007. They claim, among other things, that STAAR interfered with the plaintiffs' contracts when it caused some of their current or former subcontractors to enter into new agreements to represent STAAR products, and that STAAR interfered with the plaintiffs' prospective economic advantage when it informed a regional IOL distributor that each of the RMR's contracts had a covenant restricting the sale of competing products. Moody claims general and compensatory damages of \$32 million and Parallax claims general and compensatory damages of \$48 million and both plaintiffs request punitive damages.

On December 7, 2007 STAAR filed a general denial of the Parallax and Moody claims along with cross-complaints against Parallax and Moody for breach of contract and for misappropriation of trade secrets. STAAR believes that the Parallax and Moody claims are without merit. It also believes that its cross complaints are well founded. Nevertheless, the outcome of litigation is never certain and the possibility that the plaintiffs will recover under their claims, or that STAAR will not recover on its cross-complaints, cannot be eliminated at this time. Motions for summary adjudication in the Parallax case by both STAAR and the plaintiff have been denied, and the case is expected to be tried before a jury in the fourth quarter of 2008. If STAAR does not succeed in obtaining dismissal of all of Moody's claims through motions for summary adjudication, remaining issues of fact in that case are also likely to be determined by a jury in early 2009. Jury trials add uncertainty as to the outcome in these cases and the potential for damages. STAAR has not reserved funds against a negative outcome in the lawsuits. Costs of defending these lawsuits have been substantial, and even if STAAR prevails legal fees are likely to be unrecoverable. An unexpected negative outcome in these cases or litigation costs that are greater than anticipated could result in material harm to STAAR's business.

In addition to the lawsuits discussed above, STAAR is from time to time subject to various claims and legal proceedings arising out of the normal course of its business. These claims and legal proceedings relate to contractual rights and obligations, employment matters, and claims of product liability. STAAR maintains insurance coverage for product liability claims. While the Company does not believe that any of the claims known is likely to have a material adverse effect on its financial condition or results of operations, new claims or unexpected results of existing claims

could lead to significant financial harm.

**Note 15 — Stock-Based Compensation**

The Company has adopted Statement of Financial Accounting Standards No. 123 (revised) “Share Based Payment”, (“SFAS 123R”) effective December 31, 2005. The Company previously applied APB Opinion No. 25 “Accounting for Stock Issued to Employees” (“Opinion”) in accounting for stock option plans and in accordance with the Opinion, no compensation cost has been recognized for employee option grants for these plans in the prior period financial statements because there was no difference between the exercise price and the market price on the date of grant. The Company has elected to apply the Modified Prospective Application (“MPA”) in its implementation of SFAS No. 123R and its subsequent amendments and clarifications. Under this method, the Company has recognized stock -based compensation expense only for awards newly made or modified on or after the effective date and for the portion of the outstanding awards for which requisite service will be performed on or after the effective date. Expenses for awards previously granted and earned have not been restated.

13

---

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

As of September 26, 2008, the Company has multiple share-based compensation plans, which are described below. The Company issues new shares upon option exercise once the optionee remits payment for the exercise price. The compensation cost that has been charged against income for the 2003 Omnibus Plan and the 1998 Stock Option Plan is set forth below (in thousands):

	Three Months Ended		Nine Months Ended	
	September 26, 2008	September 28, 2007	September 26, 2008	September 28, 2007
SFAS 123R expense	\$ 265	\$ 349	\$ 937	\$ 1,033
Restricted stock expense	53	21	186	118
Consultant compensation	52	—	72	15
Total	\$ 370	\$ 370	\$ 1,195	\$ 1,166

There was no net income tax benefit recognized in the income statement for share-based compensation arrangements as the Company fully offsets net deferred tax assets with a valuation allowance. In addition, the Company capitalized \$63,000 and \$151,000 of SFAS No. 123R compensation to inventory during the three and nine months ended September 26, 2008, and \$43,000 and \$122,000, respectively during the three and nine months ended September 28, 2007, and recognizes those amounts as expense through Cost of Sales as the inventory is sold.

#### *Stock Option Plans*

In fiscal year 2003, the Board of Directors approved the 2003 Omnibus Equity Incentive Plan (the “2003 Plan”) authorizing awards of equity compensation, including options to purchase common stock and restricted shares of common stock. The 2003 Plan amends, restates and replaces the 1991 Stock Option Plan, the 1995 Consultant Stock Plan, the 1996 Non-Qualified Stock Plan and the 1998 Stock Option Plan (the “Restated Plans”). Under provisions of the 2003 Plan, all of the unissued shares in the Restated Plans are reserved for issuance in the 2003 Plan. Each year the number of shares reserved for issuance under the 2003 Plan has been increased as necessary to provide that 2% of the total shares of common stock outstanding on the immediately preceding December 31 would be reserved for issuance, up to a maximum of 1,586,371 additional shares, and a maximum total of 6,500,000 shares issuable under the 2003 Plan and all of the Restated Plans incorporated in it. The 6,500,000 maximum shares were reached on January 1, 2007, and no additional shares will be available for issuance as incentives to employees without stockholder approval. Shares subject to grants under the 2003 Omnibus Plan that lapse or terminate in accordance with their terms become available for new grants under the 2003 Omnibus Plan. As of September 26, 2008, 833,049 shares were authorized and available for grants under the 2003 Omnibus Plan. The 2003 Plan provides for various forms of stock-based incentives. To date, of the available forms of awards under the 2003 Plan, the Company has granted only stock options, restricted stock and unrestricted share grants. Options under the plan are granted at fair market value on the date of grant, become exercisable over a three- or four-year period, or as determined by the Board of Directors, and expire over periods not exceeding 10 years from the date of grant. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the 2003 Plan). Pursuant to the plan, options for 2,678,000 shares were outstanding at September 26, 2008 with exercise prices ranging between \$2.21 and \$10.99 per share. Restricted stock grants under the 2003 Plan generally vest over a period of one, three or four years. There were 35,000 shares of restricted stock grants outstanding at September 26, 2008.

In fiscal year 2000, the Board of Directors approved the Stock Option Plan and Agreement for the Company’s Chief Executive Officer (now President of International) authorizing the granting of options to purchase common stock or

awards of common stock. The options under the plan were granted at fair market value on the date of grant, become exercisable over a three-year period, and expire 10 years from the date of grant. Pursuant to this plan, options for 500,000 were outstanding at September 26, 2008, with an exercise price of \$11.125.

In fiscal year 1998, the Board of Directors approved the 1998 Stock Option Plan, authorizing the granting of options to purchase common stock or awards of common stock. Under the provisions of the plan, 1.0 million shares were reserved for issuance; however, the maximum number of shares authorized may be increased provided such action is in compliance with Article IV of the plan. During fiscal year 2001, pursuant to Article IV of the plan, the stockholders of the Company authorized an additional 1.5 million shares. Generally, options under the plan are granted at fair market value at the date of the grant, become exercisable over a three-year period, or as determined by the Board of Directors, and expire over periods not exceeding 10 years from the date of grant. Pursuant to the plan, options for 349,000 were outstanding at September 26, 2008 with exercise prices ranging between \$3.350 and \$13.625 per share. No further awards may be made under this plan.

**STAAR SURGICAL COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

In fiscal year 1995, the Company adopted the 1995 Consultant Stock Plan, authorizing the granting of options to purchase common stock or awards of common stock. Generally, options under the plan were granted at fair market value at the date of the grant, become exercisable on the date of grant and expire 10 years from the date of grant. Pursuant to this plan, options for 45,000 shares were outstanding at September 26, 2008 with an exercise price of \$1.70 per share. No further awards may be made under this plan.

Under provisions of the Company's 1991 Stock Option Plan, 2.0 million shares were reserved for issuance. Generally, options under this plan were granted at fair market value at the date of the grant, become exercisable over a three-year period, or as determined by the Board of Directors, and expire over periods not exceeding 10 years from the date of grant. Pursuant to this plan, options for 60,000 shares were outstanding at September 26, 2008 with exercise prices ranging from \$9.56 to \$10.18 per share. No further awards may be made under this plan.

During fiscal years 1999 and 2000, the Company issued non-qualified options to purchase shares of its common stock to employees and consultants. Pursuant to these agreements, options for 55,000 shares were outstanding at September 26, 2008 with exercise prices ranging between \$9.375 and \$10.63.

*Assumptions*

The fair value