

COOPER COMPANIES INC  
Form 10-Q/A  
February 08, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q/A**

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x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For Quarterly Period Ended April 30, 2005

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-8597

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**The Cooper Companies, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

**94-2657368**  
(I.R.S. Employer

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incorporation or organization)

Identification No.)

**6140 Stoneridge Mall Road, Suite 590, Pleasanton, CA 94588**

(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code (925) 460-3600**

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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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

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

Indicate the number of shares outstanding of each of issuer's classes of common stock, as of the latest practicable date.

**Common Stock, \$.10 par value  
Class**

**44,119,890 Shares  
Outstanding at May 31, 2005**

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**EXPLANATORY NOTE**

On January 17, 2006, The Cooper Companies, Inc. (Cooper or the Company) filed with the Securities and Exchange Commission (SEC) our Annual Report on Form 10-K for the fiscal year ended October 31, 2005 (the 2005 Form 10-K) which restated, in Note 14 to the Consolidated Financial Statements, our previously filed fiscal year 2005 financial statements for the first three quarters of fiscal 2005. This Amendment No. 1 on Form 10-Q/A to our Quarterly Report on Form 10-Q previously filed with the SEC on June 9, 2005 for the quarter ended April 30, 2005 (the original Form 10-Q) amends and restates the original Form 10-Q to (i) summarize the impact and effect of the restatement on the quarter ended April 30, 2005, (ii) amend Items 1 and 2 of Part I to reflect the restatement, (iii) amend Item 3 of Part II to incorporate certain information in Item 2 as amended, (iii) amend Item 4 to reflect our reassessment of our internal control over financial reporting as a result of the material weakness in our internal control disclosed in Item 9A of the 2005 Form 10-K and discussed below under *The Restatement* and to update the discussion of remediation of material weaknesses disclosed in the original Form 10-Q, and (iv) amend Item 6 of Part II to include as exhibits, pursuant to the rules of the SEC, currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer which are attached as Exhibits 31.1, 31.2, 32.1 and 32.2 to this amendment.

This amendment amends only those items of the original Form 10-Q set forth above. In order to preserve the nature and character of the disclosures set forth in such items as originally filed, no attempt has been made in this amendment (i) to reflect events occurring after the filing of the original Form 10-Q or to otherwise modify or update such disclosures except as required to reflect the effects of the restatement, or (ii) to make revisions to the Notes to the Consolidated Condensed Financial Statements except for those which are required by or result from the effects of the restatement and, in the case of the pro forma calculation of stock-based compensation in Note 1, to reflect the restatement and provide consistency with the presentation in the 2005 Form 10-K. Thus, no other information contained in the original Form 10-Q has been updated or amended. Among other things, forward looking statements made in the original Form 10-Q have not been revised to reflect events that occurred or facts that became known to us after the filing of the original Form 10-Q (other than the restatement), and such forward looking statements should be read in their historical context. For additional information regarding the restatement, see Note 2 to the Consolidated Financial Statements included in Part I Item 1 of this amendment.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

**The Restatement**

*Overview*

On January 17, 2006, we filed our Form 10-K for the fiscal year ended October 31, 2005, which included restated financial statements for the first three quarters of our fiscal year ended October 31, 2005. In this Form 10-Q/A, we are restating our previously filed financial statements for each of the three- and six-month periods ended April 30, 2005, to reflect adjustments required with respect to the allocation of the purchase price for the acquisition of Ocular Sciences, Inc. (Ocular) and other adjustments.

*Discussion*

The restatement adjustment for fiscal year 2005 and the effects of those adjustments on the three and six months ended April 30, 2005, are described within each subsection below:

*Allocation of the Purchase Price of Ocular*

The Company determined that it made an error in its initial allocation of purchase price to customer relationships and manufacturing technology acquired in the purchase of Ocular. The Company originally ascribed \$30 million to intangible assets other than goodwill, but subsequently determined that it should have allocated \$130 million to intangible assets other than goodwill, specifically \$70 million to customer relationships and \$60 million to manufacturing technology. This correction resulted in the recognition of additional amortization expense which impacted operating income in the amount of \$2.2 million and \$2.9 million for the three and six months ended April 30, 2005.

*Other Adjustments*

The Company corrected several items, which were immaterial individually and in the aggregate, which increased net income in the amount of \$10,000 for the three months ended April 30, 2005 and adversely impacted net income in the amount of \$213,000 for the six months ended April 30, 2005.

The aggregate impact of the fiscal year 2005 restatement on our financial statements for the three and six months ended April 30, 2005, is to decrease our previously reported three-month net income by \$1.7 million and decrease our six-month net income by \$2.5 million.

## Restatement and Adjustment Impact on Consolidated Condensed Statement of Income

(In millions, except per share amounts)	Three Months Ended April 30, 2005			Six Months Ended April 30, 2005		
	As Previously Reported	Net Change	Restated	As Previously Reported	Net Change	Restated
Net sales	\$ 215.8	\$ (0.3)	\$ 215.5	\$ 363.7	\$ (0.7)	\$ 363.0
Cost of sales	85.0	(0.2)	84.8	140.5	(0.3)	140.2
Gross profit	130.8	(0.1)	130.7	223.2	(0.4)	222.8
Selling, general and administrative expense	79.3	0.2	79.5	139.4	0.5	139.9
Restructuring costs	1.9	(0.2)	1.7	2.7	(0.3)	2.4
Amortization of intangibles	1.2	2.2	3.4	2.1	2.9	5.0
Operating income	43.0	(2.3)	40.7	70.8	(3.5)	67.3
Interest expense	8.1	(0.1)	8.0	11.8	(0.1)	11.7
Income before taxes	37.4	(2.2)	35.2	60.9	(3.4)	57.5
(Benefit) provision for income taxes	7.8	(0.4)	7.4	12.7	(0.7)	12.0
Net income (decrease) increase	29.5	(1.7)	27.8	48.0	(2.5)	45.5
Earnings per share						
Basic	\$ 0.67	\$ (0.04)	\$ 0.63	\$ 1.21	\$ (0.07)	\$ 1.14
Diluted	\$ 0.62	\$ (0.03)	\$ 0.59	\$ 1.11	\$ (0.05)	\$ 1.06

**Table of Contents****Restatement and Adjustment Impact on Consolidated Condensed Balance Sheet****(In millions)**

	April 30, 2005		
	As Previously Reported	Net Change	Restated
<b>ASSETS</b>			
Inventories	\$ 190.5	\$ 0.3	\$ 190.8
Deferred tax assets	25.6	0.1	25.7
Total current assets	434.4	0.4	434.8
Property, plant and equipment, net	344.5	(2.0)	342.5
Goodwill, net	1,290.7	(80.8)	1,209.9
Other intangible assets, net	60.3	97.4	157.7
Deferred tax asset	16.2	(16.2)	
Total assets	2,161.3	(1.2)	2,160.1
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current portion of long-term debt	30.2	(0.3)	29.9
Accounts payable	36.8	0.1	36.9
Employee compensation and benefits	33.1	(3.5)	29.6
Accrued acquisition costs	50.9	(1.8)	49.1
Accrued income taxes	12.7	(0.2)	12.5
Other current liabilities	56.7	(0.5)	56.2
Total current liabilities	220.4	(6.2)	214.2
Long-term debt	689.4	(1.9)	687.5
Deferred tax liability	6.4	6.0	12.4
Accrued pension liability and other	6.2	3.2	9.4
Total liabilities	922.3	1.1	923.4
Accumulated other comprehensive income	31.6	0.1	31.7
Retained earnings	242.1	(2.5)	239.6
Total stockholders equity	1,239.0	(2.3)	1,236.7
Total liabilities and stockholders equity	\$ 2,161.3	\$ (1.2)	\$ 2,160.1

**Table of Contents****Restatement and Adjustment Impact on Consolidated Condensed Cash Flows****(In millions)**

	<b>Six Months Ended April 30, 2005</b>		
	<b>As Previously Reported</b>	<b>Net Change</b>	<b>Restated</b>
<b>Cash flows from operating activities, net of effects from acquisitions:</b>			
Net income	\$ 48.0	\$ (2.5)	\$ 45.5
Depreciation and amortization	18.4	2.7	21.1
Increase in operating capital	5.8	(7.4)	(1.6)
Other non-cash items	7.9	5.8	13.7
Net cash provided by operating activities	80.1	(1.4)	78.7
<b>Cash flows from investing activities:</b>			
Acquisitions of businesses, net of cash acquired	(624.4)	1.4	(623.0)
Net cash used by investing activities	\$ (661.4)	\$ 1.4	\$ (660.0)



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## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Income

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2005 Restated (Note 2)	2004	2005 Restated (Note 2)	2004
Net sales	\$ 215,494	\$ 120,552	\$ 363,044	\$ 230,286
Cost of sales	84,785	42,167	140,217	81,945
Gross profit	130,709	78,385	222,827	148,341
Selling, general and administrative expense	79,474	48,877	139,869	92,114
Research and development expense	5,356	1,222	8,186	2,747
Restructuring costs	1,741		2,407	
Amortization of intangibles	3,391	463	5,001	808
Operating income	40,747	27,823	67,364	52,672
Interest expense	8,015	1,488	11,663	2,979
Other income, net	2,469	1,182	1,855	1,662
Income before income taxes	35,201	27,517	57,556	51,355
Provision for income taxes	7,374	5,818	12,020	11,301
Net income	27,827	21,699	45,536	40,054
Add interest charge applicable to convertible debt, net of tax	524	524	1,048	1,047
Income for calculating diluted earnings per share	\$ 28,351	\$ 22,223	\$ 46,584	\$ 41,101
Earnings per share:				
Basic	\$ 0.63	\$ 0.67	\$ 1.14	\$ 1.24
Diluted	\$ 0.59	\$ 0.61	\$ 1.06	\$ 1.13
Number of shares used to compute earnings per share:				
Basic	43,980	32,554	39,801	32,359

Diluted	48,104	36,521	44,001	36,332
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See accompanying notes.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

(In thousands)

(Unaudited)

	<b>April 30, 2005 Restated (Note 2)</b>	<b>October 31, 2004</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,119	\$ 39,368
Trade receivables, net	155,168	99,269
Marketable securities		1,829
Inventories	190,822	107,607
Deferred tax asset	25,704	20,296
Other current assets	46,005	36,129
	<u>          </u>	<u>          </u>
Total current assets	434,818	304,498
	<u>          </u>	<u>          </u>
Property, plant and equipment, net	342,518	151,065
Goodwill, net	1,209,892	310,600
Other intangible assets, net	157,700	31,768
Deferred tax asset		10,315
Prepaid and other assets	15,202	3,315
	<u>          </u>	<u>          </u>
	<u>\$ 2,160,130</u>	<u>\$ 811,561</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 29,876	\$ 20,871
Accounts payable	36,858	21,684
Employee compensation and benefits	29,643	17,456
Accrued acquisition costs	49,063	11,843
Accrued income taxes	12,506	15,171
Other current liabilities	56,243	24,564
	<u>          </u>	<u>          </u>
Total current liabilities	214,189	111,589
Long-term debt	687,485	144,865
Deferred tax liability	12,372	6,026
Accrued pension liability and other	9,368	4,920
	<u>          </u>	<u>          </u>
Total liabilities	923,414	267,400
	<u>          </u>	<u>          </u>
Stockholders' equity:		
Common stock, \$.10 par value	4,459	3,334
Additional paid-in capital	968,577	327,811
Accumulated other comprehensive income	31,714	26,971
Retained earnings	239,574	195,021

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Treasury stock at cost	(7,608)	(8,976)
Total stockholders' equity	1,236,716	544,161
	\$ 2,160,130	\$ 811,561

See accompanying notes.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

	<b>Six Months Ended April 30,</b>	
	<b>2005 Restated (Note 2)</b>	<b>2004</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 45,536	\$ 40,054
Depreciation and amortization	21,060	7,527
Increase (decrease) in operating capital	(1,653)	(15,654)
Other non-cash items	13,740	4,932
<b>Net cash provided by operating activities</b>	<b>78,683</b>	<b>36,859</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(38,820)	(19,247)
Acquisitions of businesses, net of cash acquired	(622,981)	(50,844)
Sale of marketable securities and other	1,779	3,810
<b>Net cash used by investing activities</b>	<b>(660,022)</b>	<b>(66,281)</b>
<b>Cash flows from financing activities:</b>		
Net (repayments) proceeds from short-term debt	(400)	3,200
Repayments of long-term debt	(150,234)	(26,690)
Proceeds from long-term debt	702,000	16,031
Debt acquisition costs	(7,697)	
Dividends on common stock	(983)	(963)
Exercise of stock options	16,314	10,975
<b>Net cash provided by financing activities</b>	<b>559,000</b>	<b>2,553</b>
Effect of exchange rate changes on cash and cash equivalents	90	167
Net decrease in cash and cash equivalents	(22,249)	(26,702)
Cash and cash equivalents - beginning of period	39,368	47,433
<b>Cash and cash equivalents - end of period</b>	<b>\$ 17,119</b>	<b>\$ 20,731</b>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Ocular Sciences, Inc. acquisition (see Note 3):		
Fair value of assets acquired	\$ 1,343,162	
Less:		
Cash paid	(605,250)	
Company stock issued	(622,912)	

Liabilities assumed and acquisition costs accrued

\$ 115,000

See accompanying notes.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2005 Restated (Note 2)	2004	2005 Restated (Note 2)	2004
Net income	\$ 27,827	\$ 21,699	\$ 45,536	\$ 40,054
Other comprehensive income				
Foreign currency translation adjustment	(561)	(8,119)	4,931	5,063
Change in value of derivative instruments, net of tax:	(393)	25	(198)	30
Unrealized gain (loss) on marketable securities, net of tax:				
Gain (loss) arising during period		(938)	81	(190)
Reclassification adjustment		(439)	(71)	(866)
		(1,377)	10	(1,056)
Other comprehensive income (loss), net of tax	(954)	(9,471)	4,743	4,037
Comprehensive income	\$ 26,873	\$ 12,228	\$ 50,279	\$ 44,091

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

**Note 1. General**

The Cooper Companies, Inc. (Cooper) markets, develops and manufactures healthcare products through its two business units:

CooperVision (CVI) markets, develops and manufactures a broad range of contact lenses for the worldwide vision care market. Its leading products are disposable and planned replacement lenses.

CooperSurgical (CSI) markets, develops and manufactures medical devices, diagnostic products and surgical instruments and accessories used primarily by gynecologists and obstetricians.

During interim periods, we follow the accounting policies described in our Form 10-K for the fiscal year ended October 31, 2004. Please refer to this when reviewing this Form 10-Q/A. Certain prior period amounts have been reclassified to conform to the current period's presentation. Readers should not assume that the results reported here either indicate or guarantee future performance.

The restated unaudited consolidated condensed financial statements presented in this report contain all adjustments necessary to present fairly Cooper's consolidated financial position at April 30, 2005 and October 31, 2004, the consolidated results of its operations for the three and six months ended April 30, 2005 and 2004 and its cash flows for the six months ended April 30, 2005 and 2004. Most of these adjustments are normal and recurring. However, certain adjustments associated with the acquisition of Ocular Sciences, Inc. and the related financial arrangements are of a nonrecurring nature.

See "Estimates and Critical Accounting Policies" in Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations.

We use derivatives to reduce market risks associated with changes in foreign exchange and interest rates including certain intercompany equipment sales and leaseback transactions. We do not use derivatives for trading or speculative purposes. We believe that the counterparties with which we enter into forward exchange contracts and interest rate swap agreements are financially sound and that the credit risk of these contracts is negligible.

As allowed by Financial Accounting Standards Board (FASB) Statement No. 123, "Accounting for Stock-Based Compensation," (SFAS 123) as amended by FASB Statement No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an Amendment of FASB Statement No. 123," (SFAS 148) we continue to measure compensation expense using the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25) and related interpretations. Accordingly, no compensation cost has been recognized for our employee stock option plans as stock options are granted at market price. We will adopt the provisions of FASB



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Statement No. 123 (Revised 2004), Share-based Payment (SFAS 123R) effective November 1, 2005.

The pro forma impact of stock-based compensation determined under fair value based methods was changed for interim periods of 2005 and 2004 to reflect the lack of tax deductibility of compensation expense on awards issued to employees in foreign countries. Had compensation cost for our stock-based compensation plans been determined under the fair value method required by SFAS 123, as amended by SFAS 148, our net income and earnings per share would have been reduced to the pro forma amounts indicated below.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2005 Restated	2004	2005 Restated	2004
	(In thousands, except per share amounts)			
Net income, as reported	\$ 27,827	\$ 21,699	\$ 45,536	\$ 40,054
Add: Stock-based director compensation expense included in reported net income, net of related tax effects	344		358	171
Deduct: Total stock-based employee and director compensation expense determined under fair value based method, net of related tax effects	(3,181)	(1,680)	(4,660)	(3,068)
Pro forma net income	\$ 24,990	\$ 20,019	\$ 41,234	\$ 37,157
Basic earnings per share:				
As reported	\$ 0.63	\$ 0.67	\$ 1.14	\$ 1.24
Pro forma	\$ 0.57	\$ 0.61	\$ 1.04	\$ 1.15
Diluted earnings per share:				
As reported	\$ 0.59	\$ 0.61	\$ 1.06	\$ 1.13
Pro forma	\$ 0.53	\$ 0.57	\$ 0.97	\$ 1.06

New Accounting Pronouncement

In December 2004, the FASB issued SFAS 123R, which replaced SFAS 123 and APB 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options to be recognized in the financial statements based on their grant date fair values. Under SFAS 123R, the pro forma disclosures previously permitted no longer will be an alternative to financial statement recognition. SFAS 123R was originally effective for all interim or annual periods beginning after June 15, 2005, with early adoption encouraged. In April 2005, the Securities and Exchange Commission (the SEC) postponed the effective date of SFAS 123R until the issuer's first fiscal year beginning after June 15, 2005.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC's interpretations of SFAS 123R and the valuation of share-based payments for public companies.

Cooper will adopt SFAS 123R in the first quarter of fiscal 2006 using the modified prospective method, which requires that compensation expense be recorded for all unvested stock options and restricted stock upon adoption. Cooper will apply both the Black-Scholes and binomial valuation models to estimate the fair value of share-based payments to employees, which will then be amortized on a ratable basis over the requisite service period.

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Cooper is evaluating the requirements of SFAS 123R and SAB 107 and expects that the adoption of SFAS 123R on November 1, 2005 will have a material impact on Cooper's consolidated results of operations and earnings per share beginning in the first quarter of fiscal 2006. Cooper's assessment of the estimated compensation charges is affected by Cooper's stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact resulting in uncertainty as to whether future stock-based compensation expense will be similar to the historical SFAS 123 pro forma expense. These variables include, but are not limited to, the volatility of our stock price and employee stock option exercise behaviors.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

**Note 2. The Restatement**

*Overview*

On January 17, 2006, we filed our Form 10-K for the fiscal year ended October 31, 2005, which included restated financial statements for the first three quarters of our fiscal year ended October 31, 2005. In this Form 10-Q/A, we are restating our previously filed financial statements for each of the three- and six-month periods ended April 30, 2005, to reflect adjustments required with respect to the allocation of the purchase price for the acquisition of Ocular and other adjustments.

*Discussion*

The restatement adjustment for fiscal year 2005 and the effects of those adjustments on the three and six months ended April 30, 2005, are described within each subsection below:

*Allocation of the Purchase Price of Ocular*

The Company determined that it made an error in its initial allocation of purchase price to customer relationships and manufacturing technology acquired in the purchase of Ocular. The Company originally ascribed \$30 million to intangible assets other than goodwill, but subsequently determined that it should have allocated \$130 million to intangible assets other than goodwill, specifically \$70 million to customer relationships and \$60 million to manufacturing technology. This correction resulted in the recognition of additional amortization expense which impacted operating income in the amount of \$2.2 million and \$2.9 million for the three and six months ended April 30, 2005.

*Other Adjustments*

The Company corrected several items, which were immaterial individually and in the aggregate, which increased net income in the amount of \$10,000 for the three months ended April 30, 2005 and adversely impacted net income in the amount of \$213,000 for the six months ended April 30, 2005.

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The aggregate impact of the fiscal year 2005 restatement on our financial statements for the three and six months ended April 30, 2005, is to decrease our previously reported three-month net income by \$1.7 million and decrease our six-month net income by \$2.5 million.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

**Restatement and Adjustment Impact on Consolidated Condensed Statement of Income**

(In millions, except per share amounts)	Three Months Ended April 30, 2005			Six Months Ended April 30, 2005		
	As Previously Reported	Net Change	Restated	As Previously Reported	Net Change	Restated
Net sales	\$ 215.8	\$ (0.3)	\$ 215.5	\$ 363.7	\$ (0.7)	\$ 363.0
Cost of sales	85.0	(0.2)	84.8	140.5	(0.3)	140.2
Gross profit	130.8	(0.1)	130.7	223.2	(0.4)	222.8
Selling, general and administrative expense	79.3	0.2	79.5	139.4	0.5	139.9
Restructuring costs	1.9	(0.2)	1.7	2.7	(0.3)	2.4
Amortization of intangibles	1.2	2.2	3.4	2.1	2.9	5.0
Operating income	43.0	(2.3)	40.7	70.8	(3.5)	67.3
Interest expense	8.1	(0.1)	8.0	11.8	(0.1)	11.7
Income before taxes	37.4	(2.2)	35.2	60.9	(3.4)	57.5
(Benefit) provision for income taxes	7.8	(0.4)	7.4	12.7	(0.7)	12.0
Net income (decrease) increase	29.5	(1.7)	27.8	48.0	(2.5)	45.5
Earnings per share						
Basic	\$ 0.67	\$ (0.04)	\$ 0.63	\$ 1.21	\$ (0.07)	\$ 1.14
Diluted	\$ 0.62	\$ (0.03)	\$ 0.59	\$ 1.11	\$ (0.05)	\$ 1.06

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

**Restatement and Adjustment Impact on Consolidated Condensed Balance Sheet**

(In millions)

	April 30, 2005		
	As Previously Reported	Net Change	Restated
<b>ASSETS</b>			
Inventories	\$ 190.5	\$ 0.3	\$ 190.8
Deferred tax assets	25.6	0.1	25.7
Total current assets	434.4	0.4	434.8
Property, plant and equipment, net	344.5	(2.0)	342.5
Goodwill, net	1,290.7	(80.8)	1,209.9
Other intangible assets, net	60.3	97.4	157.7
Deferred tax asset	16.2	(16.2)	
Total assets	2,161.3	(1.2)	2,160.1
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current portion of long-term debt	30.2	(0.3)	29.9
Accounts payable	36.8	0.1	36.9
Employee compensation and benefits	33.1	(3.5)	29.6
Accrued acquisition costs	50.9	(1.8)	49.1
Accrued income taxes	12.7	(0.2)	12.5
Other current liabilities	56.7	(0.5)	56.2
Total current liabilities	220.4	(6.2)	214.2
Long-term debt	689.4	(1.9)	687.5
Deferred tax liability	6.4	6.0	12.4
Accrued pension liability and other	6.2	3.2	9.4
Total liabilities	922.3	1.1	923.4
Accumulated other comprehensive income	31.6	0.1	31.7
Retained earnings	242.1	(2.5)	239.6
Total stockholders' equity	1,239.0	(2.3)	1,236.7
Total liabilities and stockholders' equity	\$ 2,161.3	\$ (1.2)	\$ 2,160.1

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

**Restatement and Adjustment Impact on Consolidated Condensed Cash Flows**

(In millions)

	Six Months Ended April 30, 2005		
	As Previously Reported	Net Change	Restated
Cash flows from operating activities, net of effects from acquisitions:			
Net income	\$ 48.0	\$ (2.5)	\$ 45.5
Depreciation and amortization	18.4	2.7	21.1
Increase in operating capital	5.8	(7.4)	(1.6)
Other non-cash items	7.9	5.8	13.7
Net cash provided by operating activities	80.1	(1.4)	78.7
Cash flows from investing activities:			
Acquisitions of businesses, net of cash acquired	(624.4)	1.4	(623.0)
Net cash used by investing activities	\$ (661.4)	\$ 1.4	\$ (660.0)



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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

**Note 3. Acquisitions**

**Ocular Sciences, Inc.:** On January 6, 2005, Cooper acquired all of the outstanding common stock of Ocular Sciences, Inc. (Ocular), a global manufacturer and marketer of soft contact lenses, primarily spherical and daily disposable contact lenses that are brand and product differentiated by distribution channel.

The aggregate consideration paid for the stock of Ocular was about \$1.2 billion plus transaction costs, less acquired cash and cash equivalents. Cooper paid \$605 million in cash and issued approximately 10.7 million shares of its common stock, valued at about \$623 million, to Ocular stockholders and option holders. Under the terms of the acquisition, each share of Ocular common stock was converted into the right to receive 0.3879 of a share of Cooper common stock and \$22.00 in cash without interest, plus cash for fractional shares. Outstanding Ocular stock options were redeemed in exchange for a combination of cash and Cooper stock for the spread between their exercise prices and the value of the merger consideration immediately prior to closing.

Our preliminary allocation of the purchase price is based on Ocular's preliminary December 31, 2004, unaudited financial statements. We ascribed \$897.1 million to goodwill, all of which was assigned to our CooperVision reporting unit. The purchase price allocation also includes \$70 million to customer relationships (shelf space and market share), amortized over 15 years and \$60 million to manufacturing technology amortized over 10 years, \$308 million to tangible assets and \$115 million to liabilities assumed including about \$64.2 million of accrued acquisition costs. The Company originally ascribed \$30 million to intangible assets other than goodwill, but subsequently determined that \$130 million was allocable to intangible assets other than goodwill as noted. See Note 2. The Restatement. Additionally, \$20 million was allocated to in-process research and development, which was recorded in the quarter ended October 31, 2005, when such amount was determinable.

The results of Ocular's operations are included in the Company's Consolidated Condensed Statements of Income (unaudited) for the six-month fiscal period ended April 30, 2005 from January 6, 2005, the acquisition date.

*Pro Forma*

The following reflects the Company's unaudited pro forma results had the results of Ocular been included as of the beginning of the period. The pro forma amounts are not necessarily indicative of the results that would have occurred if the acquisition had been completed at that time.

Three Months Ended		Six Months Ended
April 30,		April 30,
2005		2004

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	<u>Restated</u>	<u>Restated</u>	<u>2005</u> <u>Restated</u>	<u>Restated</u>
	(In millions, except per share amounts)			
Pro Forma				
Net sales	\$ 215.5	\$ 201.4	\$ 413.3	\$ 391.4
Net income	\$ 27.8	\$ 18.0	\$ 13.3	\$ 32.8
Diluted earnings per share	\$ 0.59	\$ 0.39	\$ 0.30	\$ 0.72

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

(Unaudited)

*Restructuring*

In connection with the January 6, 2005, acquisition of Ocular, we are in the process of completing an integration plan to optimize operational synergies of the combined companies. These activities include integrating duplicate facilities, expanding utilization of preferred manufacturing and distribution practices and integrating the worldwide sales and marketing organizations. Integration activities began in January 2005 and are expected to continue through 2007.

We estimate that the total restructuring costs under this integration plan will be approximately \$25 \$30 million and will be reported as cost of sales or restructuring costs in our Consolidated Statements of Income. The following table summarizes our fiscal 2005 restructuring costs to date (restated):

	Plant Shutdown	Severance	Other	Total Restated
	—	—	—	—
	(In thousands)			
Restructuring costs incurred through April 30, 2005	\$ 5	\$ 774	\$ 1,523	\$ 2,302

Note 4. Accrued Acquisition Costs

When acquisitions are recorded, we accrue for the estimated direct costs in accordance with applicable accounting guidance including EITF Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination of severance and plant/office closure costs of the acquired business. Management with the appropriate level of authority have completed or in the case of the Ocular acquisition are in the process of developing their assessment of exit activities of the acquired companies and except for the Ocular acquisition have substantially completed their plans. In addition, we also accrue for costs directly associated with acquisitions, including legal, consulting, deferred payments and due diligence. There were no adjustments of accrued acquisition costs included in the determination of net income for the periods. Below is a summary of activity related to accrued acquisition costs for the six months ended April 30, 2005.

Description	Balance Oct. 31, 2004	Additions Restated	Payments	Balance April 30, 2005 Restated
	—	—	—	—
	(In thousands)			
Plant shutdown	\$ 5,386	\$ 20,775	\$ 4,639	\$ 21,522
Severance	2,083	20,033	7,348	14,768
Legal and consulting	2,788	3,368	4,004	2,152

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Hold back due	137			137
Preacquisition liabilities	768			768
Other	681	20,957	11,922	9,716
	<u>11,843</u>	<u>65,133</u>	<u>27,913</u>	<u>49,063</u>

Note 5. Inventories

	<u>April 30, 2005 Restated</u>	<u>October 31, 2004</u>
	(In thousands)	
Raw materials	\$ 25,926	\$ 15,914
Work-in-process	17,328	13,152
Finished goods	147,568	78,541
	<u>\$ 190,822</u>	<u>\$ 107,607</u>

Inventories are stated at the lower of average cost or market. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis.

The finished goods inventory includes \$7.2 million of the one-time adjustment to purchased Ocular inventory of \$16.8 million for the manufacturing profit acquired, which is being written off as acquired inventory is sold, which is expected to approximate seven months.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

**Note 6. Intangible Assets****Goodwill**

	<u>CVI</u> <u>Restated</u>	<u>CSI</u> <u>Restated</u>	<u>Total</u> <u>Restated</u>
	(In thousands)		
Balance as of October 31, 2004	\$ 190,772	\$ 119,828	\$ 310,600
Additions during the six months ended April 30, 2005	897,078	1,707	898,785
Other adjustments*	507		507
	<u>\$ 1,088,357</u>	<u>\$ 121,535</u>	<u>\$ 1,209,892</u>

\* Primarily translation differences in goodwill denominated in foreign currency.

**Other Intangible Assets**

	<u>As of April 30, 2005 Restated</u>		<u>As of October 31, 2004</u>	
	<u>Gross Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u> <u>&amp; Translation</u>	<u>Gross Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u> <u>&amp; Translation</u>
	(In thousands)			
Trademarks	\$ 1,651	\$ 219	\$ 1,651	\$ 204
Technology	83,776	9,229	23,863	6,574
Shelf space and market share	70,477	3,387	224	127
License and distribution rights and other	16,322	1,691	16,190	3,255
	<u>\$ 172,226</u>	<u>\$ 14,526</u>	<u>\$ 41,928</u>	<u>\$ 10,160</u>
Less accumulated amortization and translation	<u>14,526</u>		<u>10,160</u>	
Other intangible assets, net	<u>\$ 157,700</u>		<u>\$ 31,768</u>	

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We estimate that amortization expense will be about \$13 million per year in the four-year period ending October 31, 2009 and about \$11.7 million for the year ending October 31, 2005.

Note 7. Debt

	April 30, 2005 Restated	October 31, 2004
(In thousands)		
<b>Short-term:</b>		
Notes payable to banks	\$ 131	\$ 531
Current portion of long-term debt	29,745	20,340
	<u>\$ 29,876</u>	<u>\$ 20,871</u>
<b>Long-term:</b>		
KeyBank facility	\$ 603,000	\$ 49,875
Convertible senior debentures	112,389	112,317
Capitalized leases	541	1,437
County of Monroe Industrial Development		
Agency bond	1,214	1,365
Other	86	211
	<u>717,230</u>	<u>165,205</u>
Less current portion	29,745	20,340
	<u>\$ 687,485</u>	<u>\$ 144,865</u>

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

**KeyBank Line of Credit:** On January 6, 2005, Cooper replaced its \$225 million syndicated bank credit facility with a \$750 million credit agreement, of which \$605 million of the proceeds was used to fund the cash portion of the consideration to Ocular shareholders. The facility consists of a \$275 million revolving credit facility, a \$225 million term loan (Term A) and a \$250 million term loan (Term B). The revolving facility and the Term A loan mature on January 6, 2010; the Term B loan matures on January 6, 2012. KeyBank is the administrative agent and JP Morgan Chase is the syndication agent for the twenty-three bank syndication.

Repayment of the principal amounts of both Term A and Term B follow a quarterly schedule beginning October 6, 2005, through the respective maturity date. We repay about 4% of the principal amount of Term A each quarter through January 6, 2007, then 6% through January 6, 2009, and 8% through January 6, 2010. We repay about one-half percent of the principal amount of Term B per quarter through January 6, 2010, then 12% through January 6, 2012. Projected principal payments are as follows: we repay \$9.8 million in fiscal year 2005; \$88.1 million in fiscal years 2006 and 2007 combined; \$121.7 million for fiscal years 2008 and 2009 combined; and a total of \$255.4 million for fiscal years 2010 through 2012.

Interest rates under the facility are based on the London Interbank Offered Rate (LIBOR) plus additional basis points determined by certain ratios of debt to its pro forma earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the credit agreement. These range from 75 to 175 basis points for the revolver and Term A and from 150 to 175 basis points for the Term B. As of April 30, 2005, the additional basis points were 162.5 on the revolver and Term A and 175 on the Term B.

Terms include a first security interest in all Cooper domestic assets. The credit agreement:

Limits Cooper's debt to a maximum of 50% of its total capitalization, which is defined as the sum of total debt plus stockholders equity.

Limits cash dividends on our common stock to \$10 million per fiscal year.

Requires that the ratio of EBITDA to fixed charges (as defined) be at least 1.1 to 1 through October 30, 2008 and 1.2 to 1 thereafter.

Requires that the ratio of total debt to EBITDA (as defined) be no higher than 3.75 to 1 January 31 through October 30, 2005, 3 to 1 October 31, 2005 through October 30, 2006 and 2.50 to 1 thereafter.

Requires that the ratio of total debt excluding the principal amount of Convertible Senior Debentures to EBITDA (as defined, Senior Leverage Ratio) be no higher than 3.0 to 1 January 31, 2005 through October 30, 2005, 2.5 to 1 October 31, 2005 through October 30, 2006 and 2.0 to 1 thereafter.

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At April 30, 2005, Cooper's debt was 37% of total capitalization, the ratio of EBITDA to fixed charges (as defined) was 3.07 to 1, the ratio of debt to EBITDA was 3.11 to 1 and the Senior Leverage Ratio was 2.62 to 1.

The \$7.7 million cost of acquiring the new credit facility is carried in other assets and amortized to interest expense over its life.

At April 30, 2005, we had \$142.9 million available under the KeyBank line of credit:

<u>(In millions)</u>	
Amount of line	\$ 750.0
Outstanding loans	(607.1)*
Available	<u>\$ 142.9</u>

\* Includes \$4.1 million in letters of credit backing overdraft accounts.

**Convertible Senior Debentures:** \$115 million of 2.625% convertible senior debentures are due on July 1, 2023.



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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

**Note 8. Derivative Instruments**

We operate multiple foreign subsidiaries that manufacture and/or sell our products worldwide. As a result, our earnings, cash flows and financial position are exposed to foreign currency risk from foreign currency denominated receivables and payables, sales transactions, capital expenditures and net investment in certain foreign operations. Our policy is to use derivatives to reduce the risk to earnings and cash flows associated with anticipated foreign currency transactions, including certain intercompany equipment sale and leaseback transactions. The gains and losses on the foreign exchange forward contracts are intended to partially offset the transaction gains and losses recognized in earnings. We do not enter into foreign exchange forward contracts for speculative purposes. Under Statement of Financial Accounting Standard No. 133,

Accounting for Derivative Instruments and Hedging Activities (SFAS 133) all derivatives are recorded on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify, or are not effective as hedges, must be recognized currently in earnings.

**Cash Flow Hedging**

We designate and document foreign exchange forward contracts related to forecasted cost of sales and interest on intercompany equipment sale and leaseback transactions as cash flow hedges. We calculate hedge effectiveness, excluding time value, at least quarterly. The change in the fair value of the derivative on a spot-to-spot basis is compared to the spot-to-spot change in the anticipated transaction, with the effective portion recorded in Other Comprehensive Income (OCI) until the anticipated cost of sales or interest expense is recognized in income. We record any ineffectiveness, including the excluded time value of the hedge in other income and expense in our consolidated statement of income. In the event it becomes probable that a hedged anticipated transaction will not occur, the gains or losses on the related cash flow hedges will immediately be reclassified from OCI to other income and expense. During the first six months of fiscal year 2005, an immaterial amount was reclassified to other income and expense for anticipated transactions that failed to occur and amounts excluded from effectiveness testing. At April 30, 2005, all outstanding cash flow hedging derivatives had a maturity of less than 12 months.

**Interest Rate Swaps**

To meet certain management objectives and specific bank covenants, the Company executed six interest rate swaps on January 14, 2005, effective February 7, 2005 with maturities of 1-3 years with a combined notional value of \$500 million. The swaps are designed to fix a portion of the borrowing costs of the Company's floating rate \$750 million syndicated bank credit facility dated January 6, 2005. The fixed rates on the swaps are between 3.28% and 3.78%. The swaps are designated as FAS 133 cash flow hedges of the benchmark interest rate risk associated with certain LIBOR-based interest payments on debt, and they were carefully crafted to match the critical terms of the syndicated bank credit facility. The swaps are expected to continue to be highly effective under the dollar ratio test where the cumulative change in each swap will be divided by the cumulative change in the hypothetical derivatives. Because the documentation for the swaps was incomplete, the interest rate swaps did not qualify for hedge accounting. At April 30, 2005, the fair value of the swaps was recorded as an asset. An offsetting entry is recorded in other income for the three months ended April 30, 2005 equal to the \$2.8 million fair value of the swaps. We expect that the documentation will be completed and that the swaps will qualify for hedge accounting treatment in the fiscal third quarter, for the life of the hedge.

**Fair Value Hedging**

In fiscal year 2005, we began designating and documenting foreign exchange forward contracts related to firmly committed capital expenditures as fair value hedges. In accordance with policy, these derivatives are employed to eliminate, reduce or transfer selected foreign currency risks that meet FAS 133's definition of a firm commitment. The fair value hedges are evaluated for effectiveness at least quarterly, and any ineffectiveness is recorded in other income and expense. The critical terms of the forward contract and the firm commitments are matched at inception and subsequent forward contract effectiveness is calculated by comparing the fair value of the forward contract to the cumulative change in value of the specified firm commitment, including time value. The derivative fair values are recognized currently in income and offset by the effective gains and losses on the construction in process, which are also reflected on the balance sheet and currently in income.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

**Balance Sheet Hedging**

We manage the foreign currency risk associated with foreign currency denominated assets and liabilities using foreign exchange forward contracts with maturities of less than 12 months. Changes in fair value of these derivatives are recognized in other income and expense and substantially offset the remeasurement gains and losses associated with the foreign currency denominated assets and liabilities.

Our outstanding net foreign exchange forward contracts as of April 30, 2005, are presented in the table below. Weighted average forward rates are quoted using market conventions.

	<b>Net Notional Amount</b>	<b>Weighted Average Rate</b>
(in thousands)		
Cash flow hedges:		
Euro sold	3,032	1.2933
Fair value hedges:		
Euro purchased	6,912	1.3003
Balance sheet hedges:		
Euro sold	22,413	1.2933

**Note 9. Earnings Per Share (EPS)**

At the fiscal year ended October 31, 2004, the Company restated its diluted EPS beginning in the third fiscal quarter of 2003 to reflect the adoption of EITF Issue No. 04-8, which states that shares of common stock contingently issuable pursuant to contingent convertible securities should be included in computations of diluted EPS (if dilutive) from the time of issuance, in accordance with the if-converted methodology under FASB Statement No. 128. Restated second fiscal quarter 2004 diluted EPS is \$0.61 versus \$0.64 previously reported and restated EPS for the six months ended April 30, 2004 is \$1.13 versus \$1.19 previously reported.

<b>Three Months Ended April 30,</b>		<b>Six Months Ended April 30,</b>	
<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2004</b>
<b>Restated</b>	<b>2004</b>	<b>Restated</b>	<b>2004</b>

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	(In thousands, except per share amounts)			
<b>Basic:</b>				
Net income	\$ 27,827	\$ 21,699	\$ 45,536	\$ 40,054
Weighted average common shares	43,980	32,554	39,801	32,359
Basic earnings per common share	\$ 0.63	\$ 0.67	\$ 1.14	\$ 1.24
<b>Diluted:</b>				
Net income	\$ 27,827	\$ 21,699	\$ 45,536	\$ 40,054
Add interest charge applicable to convertible debt, net of tax	524	524	1,048	1,047
Income for calculating diluted earnings per share	\$ 28,351	\$ 22,223	\$ 46,584	\$ 41,101
Weighted average common shares	43,980	32,554	39,801	32,359
Effect of dilutive stock options	1,534	1,377	1,610	1,383
Shares applicable to convertible debt	2,590	2,590	2,590	2,590
Diluted weighted average common shares	48,104	36,521	44,001	36,332
Diluted earnings per share	\$ 0.59	\$ 0.61	\$ 1.06	\$ 1.13

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

(Unaudited)

We excluded the following options to purchase Cooper's common stock from the computation of diluted EPS because their exercise prices were above the average market price:

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2005	2004	2005	2004
Number of shares excluded	10,000		10,000	
Exercise prices	\$ 80.51	\$	\$ 80.51	\$

**Note 10. Income Taxes**

Cooper expects its effective tax rate (ETR) (provision for income taxes divided by pretax income) for fiscal 2005 to be 21 percent. Accounting principles generally accepted in the United States of America (GAAP) require that the projected fiscal year ETR be included in the year-to-date results. The ETR used to record the provision for income taxes for the six-month period ended April 30, 2004 was 22 percent. The decrease in the 2005 ETR reflects the shift of business to jurisdictions with lower tax rates and the expedited process of integrating Ocular into our global trading arrangement.

We consider the operating earnings of our non-United States subsidiaries to be indefinitely invested outside the United States. No provision has been made for the United States federal and state, or foreign taxes that may result from future remittances of undistributed earnings of foreign subsidiaries, the cumulative amount of which is approximately \$243.3 million as of April 30, 2005. As a result, the Company has not availed itself of the favorable repatriation provisions of Internal Revenue Code 965.

**Note 11. Employee Benefits**

Cooper's Retirement Income Plan (Plan) covers substantially all full-time United States employees. Cooper's contributions are designed to fund normal cost on a current basis and to fund over 30 years the estimated prior service cost of benefit improvements (15 years for annual gains and losses). The unit credit actuarial cost method is used to determine the annual cost. Cooper pays the entire cost of the Plan and funds such costs as they accrue. Virtually all of the assets of the Plan are comprised of equity and fixed income funds.

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Cooper has adopted the interim financial statement disclosure requirements of SFAS No. 132 (Revised 2003), Employers Disclosures about Pension and Other Postretirement Benefits. The provisions of SFAS No. 132, as revised, require additional disclosure to those in the original SFAS No. 132 regarding assets, obligations, cash flows and net periodic pension benefit cost of defined benefit plans. Cooper's results of operations for the three and six months ended April 30, 2005 and 2004 reflect the following pension costs:

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2005	2004	2005	2004
(In thousands)				
Components of net periodic pension cost:				
Service cost	\$ 480	\$ 401	\$ 960	\$ 802
Interest cost	355	316	710	632
Expected return on assets	(342)	(303)	(684)	(606)
Amortization of prior service cost	7	7	14	15
Amortization of transition obligation	7	7	14	12
Recognized net actuarial loss	70	48	140	96
Net periodic pension cost	\$ 577	\$ 476	\$ 1,154	\$ 951
Pension contributions:				
Contributions made during period	\$	\$	\$	\$

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

**Note 12. Cash Dividends**

We paid a semiannual dividend of 3 cents per share on January 5, 2005 to stockholders of record on December 16, 2004.

On May 13, 2005 we declared a semiannual dividend of 3 cents per share payable on July 5, 2005 to stockholders of record on June 14, 2005.

**Note 13. Contingencies**

United States Tax Court Litigation: On September 29, 2004, the Internal Revenue Service (IRS) issued Notices of Deficiency to Ocular in connection with its audit of Ocular's income tax returns for the years 1999, 2000 and 2001. The Notice primarily pertains to transfer pricing issues and an alternative adjustment under the anti-deferral provisions of Subpart F of the Internal Revenue Code and asserts that \$44.8 million of additional taxes is owed for these years, plus unspecified interest, and approximately \$12.7 million in related penalties.

On December 29, 2004, Ocular filed a Petition for the United States Tax Court to redetermine the deficiencies asserted by the IRS. On February 11, 2005, the IRS filed its Answer to the Petition generally denying the various arguments made by Ocular against the assertions of the IRS. The Company believes that the IRS may not have fully reviewed the facts before making its assessment of additional taxes, and that its position misapplies the law and is incorrect. Discovery began on March 7, 2005, and the Company intends to fully access the work product of the IRS to more fully ascertain an understanding of its position.

The amount of taxes paid for these years was supported by pricing studies performed by an international firm of tax advisors. The resulting intercompany transactions and tax payments reflected pricing terms that were and are consistent with industry practice for arm's length transactions with unrelated third parties. The Company intends to vigorously contest the IRS's claims, and believes that the ultimate outcome of this matter will not have a material adverse effect on financial condition, liquidity or cash flow of the Company.

The Company continues to be subject to the examination of Ocular's income tax returns by the IRS and other fiscal authorities, and we cannot assure that the outcomes from these examinations will not have a material adverse effect on the Company's operating results and financial condition. Moreover, the Company's future effective tax rates could be adversely affected by earnings being higher than anticipated in countries where it has higher statutory rates or lower than expected in countries where it has lower statutory rates, by changes in the valuation of deferred tax assets or liabilities, or by changes in tax laws or interpretations thereof.

**Note 14. Business Segment Information**

Cooper is organized by product line for management reporting with operating income, as presented in our financial reports, as the primary measure of segment profitability. We do not allocate costs from corporate functions to the segments' operating income. Items below operating income are not considered when measuring the profitability of a segment. We use the same accounting policies to generate segment results as we do for our overall accounting policies.

Identifiable assets are those used in continuing operations except cash and cash equivalents, which we include as corporate assets. Long-lived assets are property, plant and equipment, goodwill and other intangibles.



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Concluded

(Unaudited)

Segment information:

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2005		2005	
	Restated	2004	Restated	2004
	(In thousands)			
Net sales to external customers:				
CVI	\$ 188,889	\$ 95,045	\$ 309,938	\$ 182,063
CSI	26,605	25,507	53,106	48,223
	<u>\$ 215,494</u>	<u>\$ 120,552</u>	<u>\$ 363,044</u>	<u>\$ 230,286</u>
Operating income:				
CVI	\$ 41,220	\$ 25,784	\$ 68,164	\$ 48,391
CSI	4,208	4,646	7,725	10,011
Corporate	(4,681)	(2,607)	(8,525)	(5,730)
Total operating income	40,747	27,823	67,364	52,672
Interest expense	(8,015)	(1,488)	(11,663)	(2,979)
Other (expense) income, net	2,469	1,182	1,855	1,662
Income before income taxes	<u>\$ 35,201</u>	<u>\$ 27,517</u>	<u>\$ 57,556</u>	<u>\$ 51,355</u>
			April 30,	October 31,
			2005	2004
Identifiable assets:				
CVI			\$ 1,913,329	\$ 538,246
CSI			185,140	186,854
Corporate			61,661	86,461
Total			<u>\$ 2,160,130</u>	<u>\$ 811,561</u>

Geographic information:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 30,</b>		<b>April 30,</b>	
			<b>2005</b>	
	<b>2005</b>	<b>2004</b>	<b>Restated</b>	<b>2004</b>
	<b>Restated</b>	<b>2004</b>	<b>Restated</b>	<b>2004</b>
<b>(In thousands)</b>				
<b>Net sales to external customers by country of domicile:</b>				
United States	\$ 107,069	\$ 70,008	\$ 187,555	\$ 133,549
Europe	66,152	36,285	114,357	69,694
Rest of world	42,273	14,259	61,132	27,043
<b>Total</b>	<b>\$ 215,494</b>	<b>\$ 120,552</b>	<b>\$ 363,044</b>	<b>\$ 230,286</b>
<b>April 30,</b>				
<b>2005      October 31,</b>				
<b>Restated      2004</b>				
<b>Long-lived assets by country of domicile:</b>				
United States			\$ 177,302	\$ 60,205
Europe			162,672	87,554
Rest of world			2,544	3,306
<b>Total</b>			<b>\$ 342,518</b>	<b>\$ 151,065</b>

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

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

Note numbers refer to Notes to Consolidated Condensed Financial Statements beginning on page 11.

**Forward-Looking Statements:** This Form 10-Q/A contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These include certain statements about the integration of the Ocular businesses, our capital resources, performance and results of operations. In addition, all statements regarding anticipated growth in our or the combined company's revenue, anticipated market conditions, planned product launches and results of operations are forward-looking. To identify these statements look for words like believes, expects, may, will, should, could, seeks, intends, plans, estimates or anticipates and similar words or phrases. Discussions of strategy, plans or intentions contain forward-looking statements. Forward-looking statements necessarily depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. These include the risk that the Cooper and Ocular businesses will not be integrated successfully; the risk that CVI's new product introductions will be delayed or not occur at all; the risks related to the implementation of information technology systems covering the combined Cooper and Ocular businesses and any delays in such implementation which could result in management having to report a significant deficiency or material weakness in the effectiveness of the company's internal control over financial reporting in its 2005 annual report on Form 10-K; the risk that the combined company may not continue to realize anticipated benefits from its cost-cutting measures; risk inherent in accounting assumptions made in the acquisition, the ultimate validity and enforceability of the companies' patent applications and patents and the possible infringement of the intellectual property of others.

Events, among others, that could cause our actual results and future actions of the company to differ materially from those described in forward-looking statements include major changes in business conditions, a major disruption in the operations of our manufacturing or distribution facilities, new competitors or technologies, significant delays in new product introductions, risks relating to the effectiveness of our internal control over financial reporting based on the identification by management and our independent registered public accounting firm of material weaknesses in our internal control and the risk that additional material weaknesses may be identified in the future, the impact of an undetected virus on our computer systems, acquisition integration delays or costs, increases in interest rates, foreign currency exchange exposure, investments in research and development and other start-up projects, dilution to earnings per share from acquisitions or issuing stock, worldwide regulatory issues, including product recalls and the effect of healthcare reform legislation, cost of complying with new corporate governance requirements, changes in tax laws or their interpretation, changes in geographic profit mix effecting tax rates, significant environmental cleanup costs above those already accrued, litigation costs including any related settlements or judgments, cost of business divestitures, the requirement to provide for a significant liability or to write off a significant asset, including impaired goodwill, changes in accounting principles or estimates, including the impact of the change in GAAP to require expensing stock options, and other events described in our Securities and Exchange Commission filings, including the Business section in Cooper's Annual Report on Form 10-K for the fiscal year ended October 31, 2004. We caution investors that forward-looking statements reflect our analysis only on their stated date. We disclaim any intent to update them except as required by law.

**Results of Operations**

In this section we discuss the results of our operations for the second quarter and six months of fiscal 2005 and compare them with the same periods of fiscal 2004. We discuss our cash flows and current financial condition beginning on page 32 under Capital Resources and Liquidity.

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On January 17, 2006, we filed our Form 10-K for the fiscal year ended October 31, 2005, which included restated financial statements for the first three quarters of our fiscal year ended October 31, 2005. In this Form 10-Q/A, we are restating our previously filed financial statements for each of the three- and six-month periods ended April 30, 2005, to reflect adjustments required with respect to the allocation of the purchase price for the acquisition of Ocular Sciences, Inc. (Ocular) and other adjustments. See Note 2. The Restatement.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

**Second Quarter Highlights:**

Restated sales of \$215.5 million up 79%, 75% in constant currency.

Restated gross profit up 67%; margin decreased to 61% of revenue including nonrecurring items.

Restated operating income up 46% to \$40.7 million.

Restated diluted earnings per share 59 cents down from 61 cents, with a 32% increase in the number of shares.

Restated results include the \$7.5 million impact related to three months of the inventory step up to reflect purchased manufacturing profit sold post acquisition, \$2.7 million of restated restructuring and integration costs and \$2.8 million, \$0.05 per share, net of tax, for economically effective hedges in the form of interest rate swaps that did not qualify for hedge accounting treatment as of the end of the second quarter.

**Six-Month Highlights:**

Restated sales of \$363.0 million up 58%, 54% in constant currency.

Restated gross profit up 50%; margin decreased to 61% of revenue including nonrecurring items.

Restated operating income up 28% to \$67.4 million.

Restated diluted earnings per share down 6% to \$1.06 from \$1.13, with a 21% increase in the number of shares.

Restated results include the \$9.6 million impact related to four months of the inventory step up to reflect purchased manufacturing profit sold post acquisition, \$3.6 million of restated restructuring and integration costs and the \$1.6 million write-off of the debt issuance costs of our previous credit agreement.

**Selected Statistical Information Percentage of Sales and Growth**

%

%

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	Percent of Sales Three Months Ended		Growth _____	Percent of Sales Six Months Ended		Growth _____
	April 30,			April 30,		
	2005	2004	2005	2004		
	<u>Restated</u>		<u>Restated</u>			
Net sales	100%	100%	79%	100%	100%	58%
Cost of sales	39%	35%	101%	39%	36%	71%
Gross profit	61%	65%	67%	61%	64%	50%
Selling, general and administrative	37%	41%	63%	38%	40%	52%
Research and development	2%	1%	338%	2%	1%	198%
Restructuring	1%		N/A	1%		N/A
Amortization	2%		632%	1%		519%
Operating income	19%	23%	46%	19%	23%	28%

**Net Sales:** Cooper's two business units, CooperVision (CVI) and CooperSurgical (CSI) generate all its revenue:

CVI markets, develops and manufacturers a broad range of soft contact lenses for the worldwide vision care market.

CSI markets, develops and manufactures medical devices, diagnostic products and surgical instruments and accessories used primarily by gynecologists and obstetricians.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Our restated consolidated net sales grew \$94.9 million (79%) in the three-month period and \$132.8 million (58%) in the six-month period:

	Three Months Ended			Six Months Ended		
	April 30,			April 30,		
	2005			2005		
	Restated	2004	Growth	Restated	2004	Growth
	(\$ in millions)					
CVI	\$ 188.9	\$ 95.1	99%	\$ 309.9	\$ 182.1	70%
CSI	26.6	25.5	4%	53.1	48.2	10%
	<u>\$ 215.5</u>	<u>\$ 120.6</u>	79%	<u>\$ 363.0</u>	<u>\$ 230.3</u>	58%

**CVI Revenue:**

Segment	Three Months Ended			Six Months Ended		
	April 30,			April 30,		
	2005			2005		
	Restated	2004	Growth	Restated	2004	Growth
	(\$ in millions)					
Americas	\$ 90.2	\$ 53.3	69%	\$ 150.6	\$ 101.6	48%
Europe	67.3	36.9	82%	115.1	70.8	63%
Asia-Pacific	31.4	4.9	535%	44.2	9.7	357%
	<u>\$ 188.9</u>	<u>\$ 95.1</u>	99%	<u>\$ 309.9</u>	<u>\$ 182.1</u>	70%

CVI's worldwide net sales grew 99% and 70% in the three- and six-month periods, 94% and 66% in constant currency. Americas sales grew 69% and 48% in the three- and six-month periods, 68% and 47% in constant currency. European sales grew 82% and 63% in the three- and six-month periods, 74% and 53% in constant currency. Sales to the Asia-Pacific region grew 535% and 357% in the three- and six-month periods, 526% and 348% in constant currency. The inclusion of Ocular net sales, since the acquisition date of January 6, 2005, is the primary reason for CVI's growth in the three- and six-month periods.

Practitioner and patient preferences in the worldwide contact lens market continue to change. The major shifts are from:

Conventional lenses replaced annually to disposable and frequently replaced lenses. Disposable lenses are designed for either daily, two-week or monthly replacement; frequently replaced lenses are designed for replacement after one to three months.

Commodity lenses to specialty lenses including toric lenses, cosmetic lenses, multifocal lenses and lenses to alleviate dry eye symptoms.

Commodity spherical lenses to value-added spherical lenses such as lenses with aspherical optical properties.

These shifts favor CVI's line of specialty products, which now comprise 48% of CVI's worldwide business.

Definitions: Lens revenue consists of sales of spherical lenses, which include aspherically designed lenses, and specialty lenses – toric, cosmetic, multifocal lenses and lenses for patients with dry eyes.

Aspheric lenses correct for near- and farsightedness, and they have additional optical properties that help improve visual acuity in low light conditions and can correct low levels of astigmatism and low levels of presbyopia, an age-related vision defect.

Toric lens designs correct astigmatism by adding the additional optical properties of cylinder and axis, which correct for irregularities in the shape of the cornea.

Cosmetic lenses are opaque and color enhancing lenses that alter the natural appearance of the eye.

Multifocal lens designs correct presbyopia.

*Proclear* lenses help enhance tissue/device compatibility for patients experiencing mild discomfort relating to dry eyes during lens wear.



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Sales growth includes continued global market gains during the quarter, including increases in disposable sphere revenue up 152%, disposable toric revenue up 77%, disposable multifocal revenue up 170% and total toric revenue up 64%. CVI's line of specialty lenses grew 51% during the quarter. Sales increases also resulted from the global rollout of Proclear toric that increased 78% to \$6.1 million and the launch of Proclear multifocal lenses with second quarter 2005 sales of \$2.3 million. Daily disposable sphere sales were \$21.6 million during the quarter. Sales growth is driven primarily through increases in the volume of lenses sold as the market continues to move to more frequent replacement including within rapidly growing specialty lenses and daily disposable spheres. While unit growth and product mix have influenced revenue growth, average realized prices by product have not materially influenced revenue growth.

**CSI Revenue:** Women's healthcare products used primarily in obstetricians' and gynecologists' practices generate about 90% of CSI's revenue. The balance are sales of medical devices outside of women's healthcare where CSI does not actively market. CSI's net sales increased 4% and 10% in the three- and six-month periods, respectively. The incremental revenue growth of \$1.1 million and \$4.9 million was primarily from acquisitions, and organic growth of existing products was about 7% for the year-to-date period. While unit growth and product mix have influenced organic revenue growth, average realized prices by product have not materially influenced organic revenue growth.

**Cost of Sales/Gross Profit:** Restated gross profit as a percentage of restated sales (margin) was:

	Margin Three Months Ended April 30,		Margin Six Months Ended April 30,	
	2005	2004	2005	2004
	Restated		Restated	
CVI	61%	68%	62%	67%
CSI	56%	55%	56%	55%
Consolidated	61%	65%	61%	64%

CVI's margin for the second quarter and year to date of fiscal 2005 was 61% and 62%, respectively, compared with 68% and 67% for the prior year. The decrease is primarily due to the \$7.5 million and \$9.6 million impact related to the inventory step up adjustment in the second quarter and year-to-date 2005 and \$979,000 and \$1.2 million, respectively, of nonrecurring restructuring expenses. CVI manufactures about 42% of its lenses in the United Kingdom. The favorable impact of currency on revenue is offset by the unfavorable impact on manufacturing costs.

CSI's margin was 56%, compared with 55% for the second quarter last year. Higher gross margin reflects continuing efficiencies from the integration of acquisitions, partially offset by foreign exchange variances as CSI imports about 27% of inventory from Europe and Canada.

**Selling, General and Administrative (SGA) Expense:**

	Three Months Ended					Six Months Ended				
	April 30,					April 30,				
	2005		2004		%	2005		2004		%
Restated	% Net Sales		% Net Sales	Incr.		Restated	% Net Sales		% Net Sales	
	(\$ in millions)									
CVI	\$ 65.4	35%	\$ 37.6	40%	74%	\$ 112.0	36%	\$ 71.4	39%	57%
CSI	9.4	35%	8.7	34%	9%	19.4	37%	15.0	31%	29%
Headquarters	4.7		2.6		80%	8.5		5.7		49%
	<u>\$ 79.5</u>	<u>37%</u>	<u>\$ 48.9</u>	<u>41%</u>	<u>63%</u>	<u>\$ 139.9</u>	<u>39%</u>	<u>\$ 92.1</u>	<u>40%</u>	<u>52%</u>

In the second quarter of 2005, restated consolidated SGA increased 63%, and as a percentage of restated revenue decreased to 37% from 41% in the prior year for the three-month period and decreased to 39% from 40% for the six-month period. Acquisitions contributed largely to the SGA increases. About \$1.5 million and \$3.1 million of the SGA increase in the three- and six-month periods reflected the relative weakness of the U.S. dollar against foreign currencies on the \$36.3 million and \$60.9 million of SGA outside the U.S. in the three- and six-month periods. The increase in CSI's SGA reflects the decision to invest in sales and marketing to increase organic growth. Corporate headquarters' expenses, which increased 22% sequentially and 80%, or \$2.1 million, from last year's second quarter include added costs due to the Ocular acquisition, continued expenses for projects and staff to maintain the Company's global trading arrangement and costs to comply with corporate governance requirements.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

**Research and Development Expense:** During the second quarter and year-to-date 2005, CVI research and development expenditures were \$4.5 million, up 623% and \$6.5 million, up 292%, respectively, over 2004. CVI's research and development activities, now augmented by Ocular's strong research pipeline, include programs to develop two-week disposable and continuous wear silicone hydrogel lenses, a disposable multifocal toric and a daily wear lens incorporating the Proclear lens material. CSI's research and development expenditures of \$901,000, up 49% and \$1.7 million, up 55%, respectively, were for upgrading and redesign of many CSI products in osteoporoses, in-vitro fertilization, incontinence, assisted reproductive technology and other obstetrical and gynecological product development activities.

**Restructuring:** Restated restructuring expenses of \$1.7 million and \$2.4 million for the three- and six-month periods, respectively, are primarily non-acquisition expenses resulting from changes made as a result of the integration of Ocular.

In connection with the January 6, 2005, acquisition of Ocular Sciences, Inc., we are in the process of completing an integration plan to optimize operational synergies of the combined companies. These activities include integrating duplicate facilities, expanding utilization of preferred manufacturing and distribution practices and integrating the worldwide sales and marketing organizations. Integration activities began in January 2005 and are expected to continue through 2007.

We estimate that the total restructuring costs under this integration plan will be approximately \$25-\$30 million and will be reported as cost of sales or restructuring costs in our Consolidated Statement of Income. See Note 3. Acquisitions.

**Operating Income (Expense):** Restated operating income improved by \$12.9 million, or 46%, and \$14.7 million, or 28%, for the three- and six-month periods, respectively:

	Three Months Ended					Six Months Ended				
	April 30,					April 30,				
	2005	% Net	2004	% Net	% Incr.	2005	% Net	2004	% Net	% Incr.
Restated	Sales	Restated	Sales	(Decr.)	Restated	Sales	Restated	Sales	(Decr.)	
	(\$ in millions)									
CVI	\$ 41.2	22%	\$ 25.8	27%	60%	\$ 68.2	22%	\$ 48.4	27%	41%
CSI	4.2	16%	4.6	18%	(9%)	7.7	15%	10.0	21%	(23%)
Headquarters	(4.7)		(2.6)		(80%)	(8.5)		(5.7)		(49%)
	\$ 40.7	19%	\$ 27.8	23%	46%	\$ 67.4	19%	\$ 52.7	23%	28%

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**Interest Expense:** Restated interest expense increased by \$6.5 million, or 439%, in the three-month period and \$8.7 million, or 292%, in the six-month period. On January 6, 2005, we replaced our \$225 million credit facility with a \$750 million credit agreement primarily to fund the acquisition of Ocular. Due to the acquisition, we had \$603 million in loans on our credit facility at April 30, 2005 compared to \$59.3 million outstanding on April 30, 2004.

**Other Income (Expense), Net:**

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2005	2004	2005	2004
	(In thousands)			
Unrealized gain on derivative Instruments	\$ 2,834	\$	\$ 2,834	\$
Interest income	160	89	360	191
Foreign exchange gain (loss)	(395)	329	86	(13)
Settlement of disputes		(365)		(365)
Unamortized debt issuance costs			(1,602)	
Gain on sale of marketable securities		731	120	1,443
Other	(130)	398	57	406
	<u>\$ 2,469</u>	<u>\$ 1,182</u>	<u>\$ 1,855</u>	<u>\$ 1,662</u>

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In the first half of 2005, we sold 292,000 shares of marketable securities, realizing a gain of approximately \$120,000, and we wrote off the debt issuance costs of our previous credit agreement of \$1,602,000. The unrealized gain on derivative instruments of \$2.8 million, \$0.05 per share, net of tax, relates to effective hedges in the form of interest rate swaps that did not qualify for hedge accounting treatment as of the end of the fiscal second quarter. We expect the swaps to qualify for hedge accounting treatment in our fiscal third quarter. See Note 8. Derivative Instruments.

**Provision for Income Taxes:** We recorded restated tax expense of \$12.0 million in the first half of fiscal 2005 compared to \$11.3 million in the first half of fiscal 2004 on income before income taxes. The restated effective tax rate for the first half of fiscal 2005 (provision for taxes divided by income before taxes) was approximately 21 percent compared to approximately 22 percent for the first half of fiscal 2004.

With anticipated faster revenue growth outside the U.S. and a favorable mix of products manufactured outside the U.S., Cooper expects that its net operating loss carryforwards in the U.S. will last beyond 2007.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

**Capital Resources and Liquidity**

**Second Quarter Highlights:**

Restated operating cash flow \$42.9 million vs. \$30.1 million in last year's second quarter.

Cash payments for acquisitions totaled \$7.3 million.

Expenditures for purchases of property, plant and equipment (PP&E) \$27.2 million vs. \$12.4 million in 2004's second quarter.

**Six-Month Highlights:**

Restated operating cash flow \$78.7 million vs. \$36.9 million in the first half of 2004.

Cash payments for acquisitions totaled \$623 million.

Expenditures for purchases of PP&E \$38.8 million vs. \$19.2 million in the first half of 2004.

**Comparative Statistics (\$ in millions):**

	<b>April 30, 2005</b>	<b>October 31, 2004</b>
	<b>Restated</b>	
	<u>          </u>	<u>          </u>
Cash and cash equivalents	\$ 17.1	\$ 39.4
Total assets	\$ 2,160.1	\$ 811.6
Working capital	\$ 220.6	\$ 192.9
Total debt	\$ 717.4	\$ 165.7
Stockholders' equity	\$ 1,236.7	\$ 544.2
Ratio of debt to equity	0.58:1	0.30:1
Debt as a percentage of total capitalization	37%	23%
Operating cash flow - twelve months ended	\$ 143.0	\$ 101.2

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**Operating Cash Flow:** Restated cash flow provided from operating activities continues as Cooper's major source of liquidity, totaling \$78.7 million in the first half of fiscal 2005 and \$143 million over the twelve-month period ended April 30, 2005.

Restated working capital increased \$27.7 million in the first half of fiscal 2005 due to increases of \$83.2 million in inventory, \$55.9 million in receivables and \$15.3 million in current deferred tax assets and other. These increases were partially offset as cash decreased \$22.2 million, primarily to fund acquisitions, marketable securities decreased \$1.8 million from sales of securities, current accrued liabilities and accounts payable increased \$93.6 million, and short-term debt increased \$9 million. The significant increase in working capital is primarily due to the acquisition of Ocular; however, growth in the overall business, smaller acquisitions and the effect of foreign exchange also contributed.

At the end of the first six months, Cooper's inventory months on hand (MOH) decreased to 6.7 from 7.3 in last year's first half. Our days sales outstanding (DSO) increased to 62 days from 61 days in last year's second quarter. Based on our experience and knowledge of our customers and our analysis of inventoried products and product levels, we believe that our accounts receivable and inventories are recoverable.

**Investing Cash Flow:** The restated cash outflow of \$660 million from investing activities was driven by payments of \$623 million for acquisitions, primarily the purchase of Ocular, and capital expenditures of \$38.8 million, used primarily to expand manufacturing capacity and continue the rollout of new information systems. This was partially offset by proceeds from the sale of marketable securities of \$1.8 million.

**Financing Cash Flow:** The cash inflow of \$559 million from financing activities was driven by proceeds from long-term debt of \$702 million and \$16.3 million from the exercise of stock options, partially offset by repayment of debt of \$150.6 million, payment of debt acquisition costs of \$7.7 million and dividends on our common stock of \$1 million paid in the first fiscal quarter of 2005.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

**Off Balance Sheet Arrangements**

None.

**Estimates and Critical Accounting Policies**

Management estimates and judgments are an integral part of financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). We believe that the critical accounting policies described in this section address the more significant estimates required of management when preparing our consolidated financial statements in accordance with GAAP. We consider an accounting estimate critical if changes in the estimate may have a material impact on our financial condition or results of operations. We believe that the accounting estimates employed are appropriate and resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustment to these balances in future periods.

**Revenue recognition** We recognize revenue when it is realized or realizable and earned, based on terms of sale with the customer, where persuasive evidence of an agreement exists, delivery has occurred, the seller's price is fixed and determinable and collectibility is reasonably assured. For contact lenses as well as CooperSurgical medical devices, diagnostic products and surgical instruments and accessories, this primarily occurs upon product shipment, when risk of ownership transfers to our customers. We believe our revenue recognition policies are appropriate in all circumstances, and that our policies are reflective of our customer arrangements. We record, based on historical statistics, estimated reductions to revenue for customer incentive programs offered including cash discounts, promotional and advertising allowances, volume discounts, contractual pricing allowances, rebates and specifically established customer product return programs. While estimates are involved, historically, most of these programs have not been major factors in our business, since a high percentage of our revenue is from direct sales to doctors.

**Allowance for doubtful accounts** Our reported balance of accounts receivable, net of the allowance for doubtful accounts, represents our estimate of the amount that ultimately will be realized in cash. We review the adequacy of our allowance for doubtful accounts on an ongoing basis, using historical payment trends and the age of the receivables and knowledge of our individual customers. When our analyses indicate, we increase or decrease our allowance accordingly. However, if the financial condition of our customers were to deteriorate, additional allowances may be required. While estimates are involved, bad debts historically have not been a significant factor given the diversity of our customer base, well established historical payment patterns and the fact that patients require satisfaction of healthcare needs in both strong and weak economics.

**Net realizable value of inventory** In assessing the value of inventories, we must make estimates and judgments regarding aging of inventories and other relevant issues potentially affecting the saleable condition of products and estimated prices at which those products will sell. On an ongoing basis, we review the carrying value of our inventory, measuring number of months on hand and other indications of salability, and reduce the value of inventory if there are indications that the carrying value is greater than market. While estimates are involved, historically, obsolescence has not been a significant factor due to long product dating and lengthy product life cycles. We target to keep, on average, about seven months of inventory on hand to maintain high customer service levels in spite of the complexity of our specialty lens product portfolio.



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Valuation of goodwill We account for goodwill and evaluate our goodwill balances and test them for impairment in accordance with the provisions of FASB Statement No. 142, Goodwill and Other Intangible Assets. We no longer amortize goodwill. We test goodwill for impairment annually during the third fiscal quarter and when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. We performed an impairment test in our third fiscal quarter 2004, and our analysis indicated that we had no goodwill impairment.

The FASB Statement No. 142 goodwill impairment test is a two-step process. Initially, we compare the book value of net assets to the fair value of each reporting unit that has goodwill assigned to them. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of the impairment. When available and as appropriate, we use comparative market multiples to corroborate fair value results. A reporting unit is the level of reporting at which goodwill is tested for impairment.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

Our reporting units are the same as our business segments—CooperVision and CooperSurgical—reflecting the way that we manage our business. Our most recent estimate of fair value, at the time of our May 1, 2004 review, and using several valuation techniques including assessing industry multiples, for CooperVision ranged from \$1 billion to \$1.6 billion compared to a carrying value of \$438 million and for CooperSurgical fair value ranged from \$317 million to \$461 million compared to a carrying value of \$167 million.

**Business combinations**—We routinely consummate business combinations. We allocate the purchase price of acquisitions based on our estimates and judgments of the fair value of net assets purchased, acquisition costs incurred and intangibles other than goodwill. On individually significant acquisitions, we utilize independent valuation experts to provide a basis in order to refine the purchase price allocation, if appropriate. Results of operations for acquired companies are included in our consolidated results of operations from the date of acquisition.

**Income taxes**—As part of the process of preparing our consolidated financial statements, we must estimate our income tax expense for each of the jurisdictions in which we operate. This process requires significant management judgments and involves estimating our current tax exposures in each jurisdiction including the impact, if any, of additional taxes resulting from tax examinations as well as judging the recoverability of deferred tax assets. To the extent recovery of deferred tax assets is not likely based on our estimation of future taxable income in each jurisdiction, a valuation allowance is established. Tax exposures can involve complex issues and may require an extended period to resolve. Frequent changes in tax laws in each jurisdiction complicate future estimates. To determine the quarterly tax rate, we are required to estimate full-year income and the related income tax expense in each jurisdiction. We adjust the estimated effective tax rate for the tax related to significant unusual items. Changes in the geographic mix or estimated level of annual pre-tax income can affect the overall effective tax rate, and such changes could be material.

**New Accounting Pronouncement**

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which replaced FASB Statement No. 123, Accounting for Stock-Based Compensation, (SFAS 123) and superseded Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). SFAS 123R requires all share-based payments to employees, including grants of employee stock options to be recognized in the financial statements based on their grant date fair values. Under SFAS 123R, the pro forma disclosures previously permitted no longer will be an alternative to financial statement recognition. SFAS 123R was originally effective for all interim or annual periods beginning after June 15, 2005, with early adoption encouraged. In April 2005, the Securities and Exchange Commission (the SEC) postponed the effective date of SFAS 123R until the issuer's first fiscal year beginning after June 15, 2005.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC's interpretations of SFAS 123R and the valuation of share-based payments for public companies.

Cooper will adopt SFAS 123R in the first quarter of fiscal 2006 using the modified prospective method, which requires that compensation expense be recorded for all unvested stock options and restricted stock upon adoption. Cooper will apply both the Black-Scholes and binomial valuation models to estimate the fair value of share-based payments to employees, which will then be amortized on a ratable basis over the requisite service period.

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Cooper is evaluating the requirements of SFAS 123R and SAB 107 and expects that the adoption of SFAS 123R on November 1, 2005 will have a material impact on Cooper's consolidated results of operations and earnings per share beginning in the first quarter of fiscal 2006. Cooper's assessment of the estimated compensation charges is affected by Cooper's stock price as well as assumptions regarding a number of complex and subjective variables and the related tax impact resulting in uncertainty as to whether future stock-based compensation expense will be similar to the historical SFAS 123 pro forma expense. These variables include, but are not limited to, the volatility of our stock price and employee stock option exercise behaviors.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

**Outlook**

We believe that cash and cash equivalents on hand of \$17.1 million plus cash from operating activities will fund future operations, capital expenditures, cash dividends and smaller acquisitions. We expect capital expenditures in fiscal year 2005 of \$115 - \$125 million with about 70% to expand manufacturing capacity, about 20% for conversion of CVI's products to the Gen II manufacturing platform acquired from Ocular and about 10% for information technology. At April 30, 2005, we had \$142.9 million available under the KeyBank line of credit.

**Risk Management**

We are exposed to risks caused by changes in foreign exchange, principally our pound sterling and euro denominated debt and receivables and from operations in foreign currencies. We have taken steps to minimize our balance sheet exposure. We are also exposed to risks associated with changes in interest rates, as the interest rate on our revolver and term loan debt under the KeyBank credit agreement varies with the London Interbank Offered Rate. The significant increase in debt following the acquisition of Ocular has significantly increased the risk associated with changes in interest rates. However in January 2005, steps were taken to minimize this risk by entering into interest rate swaps with total notional value of \$500 million maturing in 2006 through 2008. The effect of these interest rate swaps is to convert \$500 million of our outstanding long-term debt to a fixed rate. Now, approximately 86% of our debt is fixed rate. See Note 8. Derivative Instruments.

On January 6, 2005, to fund the cash portion of consideration to Ocular shareholders, Cooper replaced its \$225 million credit facility with a \$750 million credit agreement. At April 30, 2005, we had outstanding borrowings of \$603 million on the credit facility with \$475 million on the term loans and \$128 million on the revolver. See Note 7. Debt.

Our long-term debt obligations are adjusted as follows. We repaid the credit facility term loan obligations existing at October 31, 2004 of \$18.8 million for 2005 and \$28.1 million for 2006 and 2007 and the revolving facility obligation existing at October 31, 2004 of \$3 million for the 2006 and 2007 period. For the existing term loans, we are obligated to repay \$9.8 million in the current period ending October 31, 2005, \$88.1 million within the subsequent two fiscal year period 2006 through 2007, \$121.8 million within the two fiscal year period 2008 through 2009, and \$255.4 million thereafter. For the existing revolving facility, we are obligated to repay \$128 million in fiscal year 2010.

Due to the acquisition of Ocular, at April 30, 2005 Cooper had additional restated operating lease obligations of \$26.0 million which includes about \$15.5 million of obligations for restructuring activities accrued in the acquisition. Payments on the operating leases are due \$5.7 million in the current period ending October 31, 2005, \$10.1 million within the subsequent two fiscal year period 2006 through 2007, \$5.2 million within the two fiscal year period 2008 through 2009 and \$5.0 million thereafter.

As of April 30, 2005, the scheduled maturities of Cooper's variable rate long-term debt obligations (excluding capital leases), their weighted average interest rates and their estimated fair values were as follows:

<u>Fiscal Year</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
	(\$ in millions)							
Long-term debt:								
Variable interest rate	\$ 10.1	\$ 38.3	\$ 50.5	\$ 54.6	\$ 67.3	\$ 383.5	\$ 604.3	\$ 604.3
Average interest Rate	3.2%	3.0%	3.3%	4.2%	4.6%	4.6%		

#### Trademarks

Proclear® is a registered trademark of The Cooper Companies, Inc., its affiliates and/or subsidiaries and is italicized in this report.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

See Risk Management under Capital Resources and Liquidity in Item 2 of this report.

**Item 4. Controls and Procedures**

The Company has established and currently maintains disclosure controls and procedures designed to ensure that material information required to be disclosed in its reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and that any material information relating to the Company is recorded, processed, summarized and reported to its principal officers to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In conjunction with the close of each fiscal quarter, the Company conducts a review and evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. As further discussed below, an additional material weakness was identified in the Company's internal control over financial reporting as of April 30, 2005 and October 31, 2005, in connection with the preparation and filing of the Company's 2005 Form 10-K. The Public Company Accounting Oversight Board's Auditing Standard No. 2 defines a material weakness as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As a result of the material weaknesses, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of April 30, 2005, the end of the period covered by this report, the Company's disclosure controls and procedures were not effective to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

For the quarter ended April 30, 2005, management became aware of two material weaknesses. First, management concluded that one material weakness arose from the lack of the appropriate level of expertise to ensure the correct application of Statement of Financial Accounting Standards (SFAS) 133 Accounting for Derivative Instruments and Hedging Activities, when the Company entered into certain forward interest rate swaps on January 14, 2005, effective February 7, 2005. In the course of preparing to report financial results for the fiscal second quarter 2005, our independent registered public accounting firm, KPMG LLP (KPMG), advised management that during their review of the Company's second quarter financial statements, they determined that the Company's documentation relating to these interest rate swaps did not meet all of the requisite elements needed to qualify for hedge accounting under SFAS 133.

Secondly, management concluded that a senior manager had not been forthcoming with KPMG during that firm's review of the documentation relating to the interest rate swaps in that the manager failed to disclose in a truthful and timely manner when questioned by KPMG that some of the documentation presented was not, as required by SFAS 133, prepared contemporaneously with the Company's executing the interest rate swaps in January 2005. Upon the Company's discovery of these facts, the senior manager was terminated and the Company commenced an internal investigation, including an examination of electronic documents and emails. Based upon this investigation, the Company concluded that no other employee was aware of or assisted in the failure to disclose the relevant fact. As further discussed below, additional material weaknesses were identified in the Company's internal control over financial reporting as of April 30, 2005 and October 31, 2005 in connection with the preparation and filing of the Company's 2005 Form 10-K.

Based on the failure of these interest rate swaps to qualify for hedge accounting, other income for the quarter ended April 30, 2005 includes \$2.8 million, representing \$0.05 per share, net of tax, related to the increase in fair value for the interest rate swaps we put in place in connection with our Key Bank line of credit to convert the variable rate of interest on this facility to a fixed rate of interest. The Company intended from the initiation of these interest rate swap agreements to take all required actions to have these instruments treated as hedges for accounting purposes. As part of its efforts in this regard, the Company engaged the services of an expert who provided advice with respect to the interest rate swap transaction. While these instruments are operating as designed to effectively hedge the economic risk we have with respect to changes in the variable rate of interest on our line of credit, the swaps do not currently qualify to be treated as hedges for accounting purposes. KPMG identified shortcomings in the documentation which resulted in the derivative not qualifying as an effective hedge under SFAS 133. Due in part to the complex and detailed requirements under current accounting literature to achieve hedge

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accounting, we continued to take appropriate steps to have these interest rate swap instruments qualify to be treated as hedges for accounting purposes during our fiscal third quarter.

At the time of the filing of the original 10-Q, the Company was in the process of remediating these material weaknesses in our internal control over financial reporting with respect to accounting for derivative transactions. The remedial actions included:

terminating the employment of the senior manager of the Company;

initiating training and education of all relevant personnel involved in interactions with our independent registered public accounting firm designed to ensure that such personnel understand and comply with the provisions of the Securities Exchange Act of 1934, and the rules promulgated thereunder, regarding representations to our independent registered public accountants;

improving training, education and accounting reviews designed to ensure that all relevant personnel involved in derivative transactions understand and apply hedge accounting in compliance with SFAS 133;

engaging different qualified experts in accounting for derivative instruments to ensure compliance with SFAS 133 by employing technically adequate documentation so that derivative instruments, which are intended to hedge economic risks qualify for hedge accounting under SFAS 133 when so desired by the Company; and

retesting our internal control over financial reporting with respect to hedging transactions to ensure compliance with SFAS 133.

We implemented these changes in our internal control over financial reporting after April 30, 2005. Management believes the measures that had been and were to be implemented to remediate the material weaknesses had a significant and positive impact on the Company's internal control over financial reporting since April 30, 2005 and anticipates that these measures and other ongoing enhancements will continue to strengthen the Company's internal control over financial reporting in future periods. Prior to April 30, 2005 there had been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

In connection with the preparation and filing of the Company's 2005 Form 10-K, management assessed the effectiveness of the Company's internal control over financial reporting as of October 31, 2005 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. This assessment excluded certain divisions of Ocular, which was acquired on January 6, 2005, representing approximately 11% of our consolidated assets, 4% of consolidated liabilities and 26% of consolidated revenues as of and for the year ended October 31, 2005. The assessment identified the following additional material weakness in the Company's internal control over financial reporting as of April 30, 2005 and October 31, 2005: the Company did not have sufficient personnel with adequate knowledge regarding accounting for acquisitions in accordance with generally accepted accounting principles. In addition, the Company did not have policies and procedures regarding a periodic review of existing accrued liabilities related to business combinations. This material weakness resulted in the restatement of the Company's previously issued financial statements for the quarters ended January 31, April 30 and July 31, 2005, in Note 14 to the Consolidated Financial Statements in the 2005 Form 10-K, to correct errors related to the purchase price allocation and resulting amortization of intangible assets acquired in the Ocular acquisition.



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Subsequent to October 31, 2005, management began the process of remediating the aforementioned material weakness in our internal control over financial reporting. The remediation actions we have taken or plan to undertake include:

improving training and education of all relevant personnel involved in business combination accounting;

improving the internal communication process associated with business combinations as well as the communication process associated with external advisors; and

performing ongoing reviews of existing acquisition accrual balances and accounting procedures designed to ensure proper accounting for business combination activities.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

We began implementing these changes in our internal control over financial reporting after October 31, 2005. Management believes the measures that have been or will be implemented to remediate the material weakness will have a significant and positive impact on the Company's internal control over financial reporting subsequent to October 31, 2005. The remediation is expected to be completed prior to April 30, 2006, and it is anticipated that these measures and other ongoing enhancements will continue to strengthen the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

**Item 1. Legal Proceedings**

United States Tax Court Litigation: On September 29, 2004, the Internal Revenue Service (IRS) issued Notices of Deficiency to Ocular in connection with its audit of Ocular's income tax returns for the years 1999, 2000 and 2001. The Notice primarily pertains to transfer pricing issues and an alternative adjustment under the anti-deferral provisions of Subpart F of the Internal Revenue Code and asserts that \$44.8 million of additional taxes is owed for these years, plus unspecified interest, and approximately \$12.7 million in related penalties.

On December 29, 2004, Ocular filed a Petition for the United States Tax Court to redetermine the deficiencies asserted by the IRS. On February 11, 2005, the IRS filed its Answer to the Petition generally denying the various arguments made by Ocular against the assertions of the IRS. The Company believes that the IRS may not have fully reviewed the facts before making its assessment of additional taxes, and that its position misapplies the law and is incorrect. Discovery began on March 7, 2005, and the Company intends to fully access the work product of the IRS to more fully ascertain an understanding of its position.

The amount of taxes paid for these years was supported by pricing studies performed by an international firm of tax advisors. The resulting intercompany transactions and tax payments reflected pricing terms that were and are consistent with industry practice for arm's length transactions with unrelated third parties. The Company intends to vigorously contest the IRS's claims, and believes that the ultimate outcome of this matter will not have a material adverse effect on financial condition, liquidity or cash flow of the Company.

The Company continues to be subject to the examination of Ocular's income tax returns by the IRS and other fiscal authorities, and we cannot assure that the outcomes from these examinations will not have a material adverse effect on the Company's operating results and financial condition. Moreover, the Company's future effective tax rates could be adversely affected by earnings being higher than anticipated in countries where it has higher statutory rates or lower than expected in countries where it has lower statutory rates, by changes in the valuation on deferred tax assets or liabilities, or by changes in tax laws or interpretations thereof.

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## PART II - OTHER INFORMATION - Continued

**Item 4. Submission of Matters to a Vote of Security Holders**

The 2005 Annual Meeting of Stockholders was held on March 22, 2005.

Each of the ten individuals nominated to serve as directors of the Company was elected:

<b>Director</b>	<b>Shares For</b>	<b>Shares Against</b>
A. Thomas Bender	39,094,550	2,529,709
Edgar J. Cummins	41,445,408	178,851
John D. Fruth	39,110,590	2,513,669
Michael H. Kalkstein	39,046,413	2,577,846
Moses Marx	41,350,662	273,597
Donald Press	39,100,643	2,523,616
Steven Rosenberg	38,972,919	2,651,340
Allan E. Rubenstein, M.D.	39,089,982	2,534,277
Robert S. Weiss	39,044,040	2,580,219
Stanley Zinberg, M.D.	41,359,751	264,508

Stockholders ratified the appointment of KPMG LLP as Cooper's independent certified public accountant for the fiscal year ending October 31, 2005. A total of 41,323,770 shares were voted in favor of the ratification, 291,204 shares were voted against it and 9,285 shares abstained.

Stockholders adopted Cooper's Amendment of the Amended and Restated Certificate of Incorporation. A total of 36,441,887 shares were voted in favor of the adoption, 5,149,804 shares were voted against it and 32,567 shares abstained.

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**Item 6. Exhibits**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
10.1	Amendment #2 to the Amended and Restated 2001 Long Term Incentive Plan
11*	Calculation of Earnings Per Share
31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
32.2	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350

\* The information called for in this Exhibit is provided in Footnote 9 to the Consolidated Condensed Financial Statements in this report.

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**SIGNATURE**

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

Date: February 8, 2006

The Cooper Companies, Inc.

(Registrant)

/s/ RODNEY E. FOLDEN  
**Rodney E. Folden**

**Corporate Controller**

**(Principal Accounting Officer)**

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