

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

Washington, D.C. 20549

FORM 10-Q/A

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

For Quarterly Period Ended January 31, 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

The Cooper Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-2657368
(I.R.S. Employer
Identification No.)

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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

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**

**43,909,619 Shares
Outstanding at February 28, 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 March 11, 2005 for the quarter ended January 31, 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 January 31, 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 (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 the three-month period ended January 31, 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 months ended January 31, 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 \$700,000 for the three months ended January 31, 2005.

Other Adjustments

The Company corrected several items, which were immaterial individually and in the aggregate, which adversely impacted net income in the amount of \$223,000 for the three months ended January 31, 2005.

The aggregate impact of the fiscal year 2005 restatement on our financial statements for the three months ended January 31, 2005, is to decrease our previously reported three-month net income by \$800,000.

Restatement and Adjustment Impact on Consolidated Condensed Statement of Income

| | | Three Months Ended January 31, 2005 | | |
|--|--|--|-----------------------|-----------------|
| (In millions, except per share amounts) | | As Previously Reported | Net Change | Restated |
| Net sales | | \$ 147.9 | \$ (0.3) | \$ 147.6 |
| Cost of sales | | 55.6 | (0.2) | 55.4 |
| Gross profit | | 92.3 | (0.1) | 92.2 |
| Selling, general and administrative expense | | 60.2 | 0.3 | 60.5 |
| Amortization of intangibles | | 0.9 | 0.7 | 1.6 |
| Operating income | | 27.7 | (1.1) | 26.6 |
| Interest expense | | 3.7 | (0.1) | 3.6 |
| Income before taxes | | 23.4 | (1.0) | 22.4 |
| Provision for income taxes | | 4.9 | (0.3) | 4.6 |
| Net income (decrease) increase | | 18.5 | (0.8) | 17.7 |
| Earnings per share | | | | |
| Basic | | \$ 0.53 | \$ (0.03) | \$ 0.50 |
| Diluted | | \$ 0.48 | \$ (0.02) | \$ 0.46 |

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

| | January 31, 2005 | | |
|--|---------------------------------------|-----------------------|-----------------|
| | As Previously Reported | Net Change | Restated |
| ASSETS | | | |
| Trade receivables, net | \$ 145.3 | \$ (0.3) | \$ 145.0 |
| Inventories | 196.9 | 0.1 | 197.0 |
| Total current assets | 439.0 | (0.2) | 438.8 |
| Property, plant and equipment, net | 319.7 | (2.2) | 317.5 |
| Goodwill, net | 1,296.3 | (79.6) | 1,216.7 |
| Other intangible assets, net | 60.6 | 99.4 | 160.0 |
| Deferred tax asset | 16.9 | (16.9) | |
| Total assets | 2,145.5 | 0.5 | 2,146.0 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | |
| Current portion of long-term debt | 21.8 | (0.3) | 21.5 |
| Employee compensation and benefits | 32.6 | (3.3) | 29.3 |
| Accrued acquisition costs | 58.1 | (1.4) | 56.7 |
| Accrued income taxes | 9.3 | (0.1) | 9.2 |
| Other current liabilities | 51.8 | (0.4) | 51.4 |
| Total current liabilities | 202.1 | (5.5) | 196.6 |
| Long-term debt | 723.0 | (2.0) | 721.0 |
| Deferred tax liability | 6.0 | 5.7 | 11.7 |
| Accrued pension liability and other | 9.9 | 3.1 | 13.0 |
| Total liabilities | 940.9 | 1.3 | 942.2 |
| Retained earnings | 212.5 | (0.8) | 211.7 |
| Total stockholders' equity | 1,204.5 | (0.8) | 1,203.7 |
| Total liabilities and stockholders' equity | \$ 2,145.5 | \$ 0.5 | \$ 2,146.0 |

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

| | Three Months Ended January 31, 2005 | | |
|--|--|-----------------------|-----------------|
| | As Previously Reported | Net Change | Restated |
| Cash flows from operating activities, net of effects from acquisitions: | | | |
| Net income | \$ 18.5 | \$ (0.8) | \$ 17.7 |
| Depreciation and amortization | 7.6 | 0.6 | 8.2 |
| Increase in operating capital | 7.6 | (5.3) | 2.3 |
| Other non-cash items | 3.0 | 4.6 | 7.6 |
| Net cash provided by operating activities | 36.7 | (0.9) | 35.8 |
| Cash flows from investing activities: | | | |
| Acquisitions of businesses, net of cash acquired | (616.6) | 0.9 | (615.7) |
| Net cash used by investing activities | \$ (626.4) | \$ 0.9 | \$ (625.5) |

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Item 1. Financial Statements

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Income

(In thousands, except for earnings per share)

(Unaudited)

| Three Months Ended January 31, | 2005 | |
|--|----------------------|------------|
| | Restated (Note 2) | 2004 |
| Net sales | \$ 147,550 | \$ 109,734 |
| Cost of sales | 55,432 | 39,778 |
| Gross profit | 92,118 | 69,956 |
| Selling, general and administrative expense | 60,395 | 43,237 |
| Research and development expense | 2,830 | 1,525 |
| Restructuring costs | 666 | |
| Amortization of intangibles | 1,610 | 345 |
| Operating income | 26,617 | 24,849 |
| Interest expense | 3,648 | 1,491 |
| Other (expense) income, net | (614) | 480 |
| Income before income taxes | 22,355 | 23,838 |
| Provision for income taxes | 4,646 | 5,483 |
| Net income | 17,709 | 18,355 |
| Add interest charge applicable to convertible debt, net of tax | 524 | 523 |
| Income for calculating earnings per share | \$ 18,233 | \$ 18,878 |
| Earnings per share: | | |
| Basic | \$ 0.50 | \$ 0.57 |
| Diluted | \$ 0.46 | \$ 0.52 |
| Number of shares used to compute earnings per share: | | |
| Basic | 35,209 | 32,167 |
| Diluted | 39,479 | 36,133 |

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

(In thousands)

(Unaudited)

| | January 31, 2005 | October 31, 2004 |
|--|----------------------|---------------------|
| | Restated (Note 2) | |
| | <u> </u> | <u> </u> |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 28,494 | \$ 39,368 |
| Trade receivables, net | 144,968 | 99,269 |
| Marketable securities | | 1,829 |
| Inventories | 197,024 | 107,607 |
| Deferred tax asset | 30,861 | 20,296 |
| Prepaid and other current assets | 37,416 | 36,129 |
| | <u> </u> | <u> </u> |
| Total current assets | 438,763 | 304,498 |
| | <u> </u> | <u> </u> |
| Property, plant and equipment, net | 317,489 | 151,065 |
| Goodwill, net | 1,216,688 | 310,600 |
| Other intangible assets, net | 159,974 | 31,768 |
| Deferred tax asset | | 10,315 |
| Other assets | 12,990 | 3,315 |
| | <u> </u> | <u> </u> |
| | <u>\$ 2,145,904</u> | <u>\$ 811,561</u> |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 21,439 | \$ 20,871 |
| Accounts payable | 28,529 | 21,684 |
| Employee compensation and benefits | 29,273 | 17,456 |
| Accrued acquisition costs | 56,684 | 11,843 |
| Accrued income taxes | 9,224 | 15,171 |
| Other current liabilities | 51,438 | 24,564 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 196,587 | 111,589 |
| Long-term debt | 720,991 | 144,865 |
| Deferred tax liability | 11,673 | 6,026 |
| Accrued pension liability and other | 12,948 | 4,920 |
| | <u> </u> | <u> </u> |
| Total liabilities | 942,199 | 267,400 |
| | <u> </u> | <u> </u> |
| Stockholders' equity: | | |
| Common stock, 10 cents par value | 4,440 | 3,334 |

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| | | |
|--|-------------------|-------------------|
| Additional paid-in capital | 962,985 | 327,811 |
| Accumulated other comprehensive income and other | 32,141 | 26,971 |
| Retained earnings | 211,747 | 195,021 |
| Treasury stock at cost | (7,608) | (8,976) |
| | <u> </u> | <u> </u> |
| Total stockholders' equity | 1,203,705 | 544,161 |
| | <u> </u> | <u> </u> |
| | \$ 2,145,904 | \$ 811,561 |
| | <u> </u> | <u> </u> |

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

| Three Months Ended January 31, | 2005 | |
|--|------------------|------------------|
| | Restated | |
| | (Note 2) | 2004 |
| Cash flows from operating activities: | | |
| Net income | \$ 17,709 | \$ 18,355 |
| Depreciation and amortization | 8,182 | 3,589 |
| Decrease (increase) in operating capital | 2,289 | (22,029) |
| Other non-cash items | 7,627 | 6,894 |
| Net cash provided from operating activities | 35,807 | 6,809 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (11,630) | (6,864) |
| Acquisitions of businesses, net of cash acquired | (615,658) | (5,145) |
| Sale of marketable securities and other | 1,779 | 2,145 |
| Net cash used by investing activities | (625,509) | (9,864) |
| Cash flows from financing activities: | | |
| Net proceeds of short-term debt | 26 | 1,215 |
| Repayments of long-term debt | (98,425) | (5,276) |
| Proceeds from long-term debt | 675,000 | 17 |
| Debt acquisition costs | (7,697) | |
| Dividends on common stock | (983) | (963) |
| Exercise of stock options | 10,703 | 5,829 |
| Net cash provided by financing activities | 578,624 | 822 |
| Effect of exchange rate changes on cash and cash equivalents | 204 | 124 |
| Net decrease in cash and cash equivalents | (10,874) | (2,109) |
| Cash and cash equivalents - beginning of period | 39,368 | 47,433 |
| Cash and cash equivalents - end of period | \$ 28,494 | \$ 45,324 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Ocular Sciences, Inc. acquisition (See Note 3): | | |
| Fair value of assets acquired | \$ 1,343,562 | |
| Less: | | |
| Cash paid | (605,250) | |
| Company stock issued | (622,912) | |

| | |
|---|------------|
| Liabilities assumed and acquisition costs accrued | \$ 115,400 |
|---|------------|

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Comprehensive Income

(In thousands)

(Unaudited)

| | 2005 | |
|--|------------------------|--------------------|
| | Restated | |
| <u>Three Months Ended January 31,</u> | <u>(Note 2)</u> | <u>2004</u> |
| Net income | \$ 17,709 | \$ 18,355 |
| Other comprehensive income | | |
| Foreign currency translation adjustment | 5,492 | 13,182 |
| Change in value of derivative instruments, net of tax: | 5 | 5 |
| Unrealized gain (loss) on marketable securities, net of tax: | | |
| Gain arising during the period | 81 | 748 |
| Reclassification adjustment | (71) | (427) |
| | <u>10</u> | <u>321</u> |
| Other comprehensive income, net of tax | 5,507 | 13,508 |
| Comprehensive income | <u>\$ 23,216</u> | <u>\$ 31,863</u> |

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 January 31, 2005 and October 31, 2004, the consolidated results of its operations for the three months ended January 31, 2005 and 2004 and its cash flows for the three months ended January 31, 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 counterparty with which we enter into forward exchange contracts and interest rate swap agreements is 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)

| | <u>Three Months Ended April 30,</u> | |
|--|---|------------------|
| | <u>2005</u> | <u>2004</u> |
| | <u>Restated</u> | <u>Restated</u> |
| | (In thousands, except per share amounts) | |
| Net income, as reported | \$ 17,709 | \$ 18,355 |
| Add: Stock-based director compensation expense included in reported net income, net of related tax effects | 14 | 171 |
| Deduct: Total stock-based employee and director compensation expense determined under fair value based method, net of related tax effects | (1,479) | (1,388) |
| Pro forma net income | <u>\$ 16,244</u> | <u>\$ 17,138</u> |
| Basic earnings per share: | | |
| As reported | \$ 0.50 | \$ 0.57 |
| Pro forma | \$ 0.46 | \$ 0.53 |
| Diluted earnings per share: | | |
| As reported | \$ 0.46 | \$ 0.52 |
| Pro forma | \$ 0.43 | \$ 0.49 |

New Accounting Pronouncement

In December 2004, the FASB issued SFAS 123R, which replaced SFAS 123 and superseded 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.

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 the three-month period ended January 31, 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 months ended January 31, 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 \$700,000 for the three months ended January 31, 2005.

Other Adjustments

The Company corrected several items, which were immaterial individually and in the aggregate, which adversely impacted net income in the amount of \$223,000 for the three months ended January 31, 2005.

The aggregate impact of the fiscal year 2005 restatement on our financial statements for the three months ended January 31, 2005, is to decrease our previously reported three-month net income by \$800,000.

Restatement and Adjustment Impact on Consolidated Condensed Statement of Income

| (In millions, except per share amounts) | Three Months Ended January 31, 2005 | | |
|---|--|-----------------------|-----------------|
| | As Previously Reported | Net Change | Restated |
| Net sales | \$ 147.9 | \$ (0.3) | \$ 147.6 |
| Cost of sales | 55.6 | (0.2) | 55.4 |
| Gross profit | 92.3 | (0.1) | 92.2 |
| Selling, general and administrative expense | 60.2 | 0.3 | 60.5 |
| Amortization of intangibles | 0.9 | 0.7 | 1.6 |
| Operating income | 27.7 | (1.1) | 26.6 |
| Interest expense | 3.7 | (0.1) | 3.6 |
| Income before taxes | 23.4 | (1.0) | 22.4 |
| Provision for income taxes | 4.9 | (0.3) | 4.6 |
| Net income (decrease) increase | 18.5 | (0.8) | 17.7 |
| Earnings per share | | | |
| Basic | \$ 0.53 | \$ (0.03) | \$ 0.50 |
| Diluted | \$ 0.48 | \$ (0.02) | \$ 0.46 |

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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)

| | January 31, 2005 | | |
|--|------------------------------|---------------|------------|
| | As Previously Reported | Net Change | Restated |
| ASSETS | | | |
| Trade receivables, net | \$ 145.3 | \$ (0.3) | \$ 145.0 |
| Inventories | 196.9 | 0.1 | 197.0 |
| Total current assets | 439.0 | (0.2) | 438.8 |
| Property, plant and equipment, net | 319.7 | (2.2) | 317.5 |
| Goodwill, net | 1,296.3 | (79.6) | 1,216.7 |
| Other intangible assets, net | 60.6 | 99.4 | 160.0 |
| Deferred tax asset | 16.9 | (16.9) | |
| Total assets | 2,145.5 | 0.5 | 2,146.0 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | |
| Current portion of long-term debt | 21.8 | (0.3) | 21.5 |
| Employee compensation and benefits | 32.6 | (3.3) | 29.3 |
| Accrued acquisition costs | 58.1 | (1.4) | 56.7 |
| Accrued income taxes | 9.3 | (0.1) | 9.2 |
| Other current liabilities | 51.8 | (0.4) | 51.4 |
| Total current liabilities | 202.1 | (5.5) | 196.6 |
| Long-term debt | 723.0 | (2.0) | 721.0 |
| Deferred tax liability | 6.0 | 5.7 | 11.7 |
| Accrued pension liability and other | 9.9 | 3.1 | 13.0 |
| Total liabilities | 940.9 | 1.3 | 942.2 |
| Retained earnings | 212.5 | (0.8) | 211.7 |
| Total stockholders' equity | 1,204.5 | (0.8) | 1,203.7 |
| Total liabilities and stockholders' equity | \$ 2,145.5 | \$ 0.5 | \$ 2,146.0 |

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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)

| | Three Months Ended January 31, 2005 | | |
|--|--|-----------------------|-----------------|
| | As Previously Reported | Net Change | Restated |
| Cash flows from operating activities, net of effects from acquisitions: | | | |
| Net income | \$ 18.5 | \$ (0.8) | \$ 17.7 |
| Depreciation and amortization | 7.6 | 0.6 | 8.2 |
| Increase in operating capital | 7.6 | (5.3) | 2.3 |
| Other non-cash items | 3.0 | 4.6 | 7.6 |
| Net cash provided by operating activities | 36.7 | (0.9) | 35.8 |
| Cash flows from investing activities: | | | |
| Acquisitions of businesses, net of cash acquired | (616.6) | 0.9 | (615.7) |
| Net cash used by investing activities | \$ (626.4) | \$ 0.9 | \$ (625.5) |

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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 \$903.5 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, \$307 million to tangible assets and \$115.4 million to liabilities assumed including about \$64.6 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 first fiscal quarter ended January 31, 2005 from January 6, 2005, the acquisition date.

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.

| Pro Forma | 2005 | 2004 |
|--|-----------------|-----------------|
| Three Months Ended January 31, | Restated | Restated |
| (In millions, except per share amounts) | Restated | Restated |
| Net sales | \$ 197.8 | \$ 190.1 |
| Net income | \$ (14.5) | \$ 14.8 |
| Diluted earnings per share | \$ (0.29) | \$ 0.33 |

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 three months ended January 31, 2005.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

| Description | Balance Oct. 31, 2004 | Additions Restated | Payments | Balance Jan. 31, 2005 Restated |
|----------------------------|--------------------------|-----------------------|-----------|--------------------------------------|
| (In thousands) | | | | |
| Plant shutdown | \$ 5,386 | \$ 18,783 | \$ 3,448 | \$ 20,721 |
| Severance | 2,083 | 20,965 | 5,722 | 17,326 |
| Legal and consulting | 2,788 | 14,253 | 3,002 | 14,039 |
| Hold back due | 137 | | | 137 |
| Preacquisition liabilities | 768 | | | 768 |
| Other | 681 | 10,602 | 7,590 | 3,693 |
| | \$ 11,843 | \$ 64,603 | \$ 19,762 | \$ 56,684 |

Note 5. Inventories

| | January 31, 2005 Restated | October 31, 2004 |
|-----------------------|------------------------------|---------------------|
| (In thousands) | | |
| Raw materials | \$ 25,233 | \$ 15,914 |
| Work-in-process | 17,314 | 13,152 |
| Finished goods | 154,477 | 78,541 |
| | \$ 197,024 | \$ 107,607 |

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 reflects a one-time adjustment to purchased Ocular inventory of \$15 million to reflect the manufacturing profit acquired, which is being written off as acquired inventory is sold, which is expected to approximate seven months.

Note 6. Intangible Assets

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| | CVI | CSI | Total |
|--|---------------------|-------------------|---------------------|
| <u>Goodwill</u> | <u>Restated</u> | <u>Restated</u> | <u>Restated</u> |
| (In thousands) | | | |
| Balance as of October 31, 2004 | \$ 190,772 | \$ 119,828 | \$ 310,600 |
| Additions during the three months ended January 31, 2005 | 903,564 | 1,655 | 905,219 |
| Other adjustments* | 869 | | 869 |
| | | | |
| Balance as of January 31, 2005 | <u>\$ 1,095,205</u> | <u>\$ 121,483</u> | <u>\$ 1,216,688</u> |

* Primarily translation differences in goodwill denominated in foreign currency.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

| Other Intangible Assets | As of January 31, 2005 | | As of October 31, 2004 | |
|---|------------------------|--|------------------------|--|
| | Restated | | | |
| | Gross Carrying Amount | Accumulated Amortization & Translation | Gross Carrying Amount | Accumulated Amortization & Translation |
| (In thousands) | | | | |
| Trademarks | \$ 1,651 | \$ 213 | \$ 1,651 | \$ 204 |
| Technology | 83,771 | 7,261 | 23,863 | 6,574 |
| Shelf space and market share | 70,281 | 520 | 224 | 127 |
| License and distribution rights and other | 16,041 | 3,776 | 16,190 | 3,255 |
| | <u>171,744</u> | <u>\$ 11,770</u> | <u>41,928</u> | <u>\$ 10,160</u> |
| Less accumulated amortization and translation | <u>11,770</u> | | <u>10,160</u> | |
| Other intangible assets, net | <u>\$ 159,974</u> | | <u>\$ 31,768</u> | |

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

| | January 31, | |
|-----------------------------------|------------------|------------------|
| | 2005 | October 31, 2004 |
| | Restated | |
| (In thousands) | | |
| Short-term: | | |
| Notes payable to banks | \$ 557 | \$ 531 |
| Current portion of long-term debt | 20,882 | 20,340 |
| | <u>\$ 21,439</u> | <u>\$ 20,871</u> |
| Long-term: | | |
| KeyBank facility | \$ 627,000 | \$ 49,875 |

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| | | |
|---|-------------------|-------------------|
| Convertible senior debentures | 112,353 | 112,317 |
| Capitalized leases | 1,071 | 1,437 |
| County of Monroe Industrial Development Agency bond | 1,295 | 1,365 |
| Other | 154 | 211 |
| | <u>741,873</u> | <u>165,205</u> |
| Less current portion | <u>20,882</u> | <u>20,340</u> |
| | <u>\$ 720,991</u> | <u>\$ 144,865</u> |

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

Credit Facility: 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 January 31, 2005, the additional basis points were 175 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 4 to 1 through January 30, 2005, 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 3.5 to 1 through January 30, 2005, 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 January 31, 2005, Cooper's debt was 38% of total capitalization, the ratio of EBITDA to fixed charges (as defined) was 3.90 to 1, the ratio of debt to EBITDA was 3.46 to 1 and the Senior Leverage Ratio was 2.92 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 January 31, 2005, we had \$119 million available under the KeyBank line of credit:

| <u>(In millions)</u> | |
|----------------------|---------------|
| Amount of line | \$ 750 |
| Outstanding loans | (631)* |
| Available | <u>\$ 119</u> |

* Includes \$4 million in letters of credit backing other debt.

Convertible Senior Debentures: Our \$115 million of 2.625% convertible senior debentures, net of discount, 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. 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 first fiscal quarter 2004 diluted EPS is \$0.52 versus \$0.55 previously reported.

| <u>Three Months Ended January 31,</u> | <u>2005</u> | <u>2004</u> |
|--|------------------|------------------|
| | <u>Restated</u> | |
| (In thousands, except per share amounts) | | |
| Net income | \$ 17,709 | \$ 18,355 |
| Add interest charge applicable to convertible debt, net of tax | 524 | 523 |
| Income for calculating diluted earnings per share | \$ 18,233 | \$ 18,878 |
| Basic: | | |
| Weighted average common shares | 35,209 | 32,167 |
| Basic earnings per common share | \$ 0.50 | \$ 0.57 |
| Diluted: | | |
| Weighted average common shares | 35,209 | 32,167 |
| Effect of dilutive stock options | 1,680 | 1,376 |
| Shares applicable to convertible debt | 2,590 | 2,590 |
| Diluted weighted average common shares | 39,479 | 36,133 |
| Diluted earnings per share | \$ 0.46 | \$ 0.52 |

For the three months ended January 31, 2005 and 2004, we excluded 229,166 (exercise price \$72.94 - \$73.40) and zero options to purchase Cooper's common stock, respectively, from the computation of diluted EPS because their exercise prices were above the average market price.

Note 9. Income Taxes

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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 three-month period ended January 31, 2004 was 23 percent. The decrease in the 2005 ETR reflects the shift of business to jurisdictions with lower tax rates.

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 \$211.1 million as of January 31, 2005. As a result, the Company has not availed itself of the favorable repatriation provisions of Internal Revenue Code Section 965.

Note 10. 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.

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 months ended January 31, 2005 and 2004 reflect the following pension costs.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Unaudited)

| <u>Three Months Ended January 31,</u> | <u>2005</u> | <u>2004</u> |
|---|---------------|---------------|
| (In thousands) | | |
| Components of net periodic pension cost: | | |
| Service cost | \$ 480 | \$ 401 |
| Interest cost | 355 | 316 |
| Expected return on assets | (342) | (303) |
| Amortization of prior service cost | 7 | 7 |
| Amortization of transition obligation | 7 | 7 |
| Recognized net actuarial loss | 70 | 48 |
| Net periodic pension cost | \$ 577 | \$ 476 |
| Pension contributions: | | |
| Contributions made during period | \$ | \$ |

Note 11. Cash Dividends

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

Note 12. 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.

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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 13. 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.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Concluded

(Unaudited)

Segment information:

| Three Months Ended January 31, | 2005 | |
|---------------------------------------|---------------------|--------------------|
| | Restated | 2004 |
| (In thousands) | | |
| Net sales to external customers: | | |
| CVI | \$ 121,049 | \$ 87,018 |
| CSI | 26,501 | 22,716 |
| | <u>\$ 147,550</u> | <u>\$ 109,734</u> |
| Operating income: | | |
| CVI | \$ 26,944 | \$ 22,607 |
| CSI | 3,517 | 5,365 |
| Corporate | (3,844) | (3,123) |
| Total operating income | 26,617 | 24,849 |
| Interest expense | (3,648) | (1,491) |
| Other (expense) income, net | (614) | 480 |
| Income before income taxes | <u>\$ 22,355</u> | <u>\$ 23,838</u> |
| | January 31, | |
| | 2005 | October 31, |
| | Restated | 2004 |
| (In thousands) | | |
| Identifiable assets: | | |
| CVI | \$ 1,895,674 | \$ 538,246 |
| CSI | 184,945 | 186,854 |
| Corporate | 65,285 | 86,461 |
| Total | <u>\$ 2,145,904</u> | <u>\$ 811,561</u> |

Geographic information:

| Three Months Ended January 31, | 2005 | 2004 |
|---------------------------------------|-----------------|-------------|
| | Restated | |

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(In thousands)

| Net sales to external customers by country of domicile: | | |
|---|-------------------|-------------------|
| United States | \$ 80,486 | \$ 63,541 |
| Europe | 48,205 | 33,409 |
| Rest of world | 18,859 | 12,784 |
| Total | \$ 147,550 | \$ 109,734 |

January 31,
2005

Restated

October 31,
2004

(In thousands)

| Long-lived assets by country of domicile: | | |
|---|-------------------|-------------------|
| United States | \$ 171,604 | \$ 60,205 |
| Europe | 156,954 | 87,554 |
| Rest of world | (11,069) | 3,306 |
| Total | \$ 317,489 | \$ 151,065 |

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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 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; the 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, 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 first quarter of fiscal 2005 and compare them with the same period of fiscal 2004. We discuss our cash flows and current financial condition beginning on page 28 under Capital Resources and Liquidity.

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. Ocular's results are included in our first fiscal quarter ended January 31, 2005 from January 6, 2005.

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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 the three-month period ended January 31, 2005, to reflect adjustments required with respect to the allocation of the purchase price for the acquisition of 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

First Quarter Highlights:

Restated sales of \$147.6 million up 34%, 31% in constant currency.

Restated gross profit up 32%; margin down two percentage points to 62% of revenue.

Restated operating income up 7% to \$26.6 million.

Restated diluted earnings per share down 12% to 46 cents from 52 cents, with a 9% increase in the number of shares.

Restated results include the \$2.1 million write off of one month of the inventory step up to reflect purchased manufacturing profit sold post acquisition, restated restructuring and integration costs of \$915,000 and the write-off of the debt issuance costs of our previous credit agreement of \$1.6 million.

Selected Statistical Information Percentage of Sales and Growth

| | Percentage of Sales Three Months Ended January 31, | | Percentage Growth |
|-------------------------------------|--|------|----------------------|
| | 2005 | | |
| | Restated | 2004 | |
| Net sales | 100% | 100% | 34% |
| Cost of sales | 38% | 36% | 39% |
| Gross profit | 62% | 64% | 32% |
| Selling, general and administrative | 41% | 39% | 40% |
| Research and development | 2% | 2% | 86% |
| Restructuring | 0% | 0% | N/A |
| Amortization | 1% | 0% | 367% |
| Operating income | 18% | 23% | 7% |

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

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CVI markets, develops and manufactures a broad range of 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.

Our restated consolidated net sales grew \$37.8 million, or 34%:

| Three Months Ended | 2005 | | Percentage |
|--------------------|-----------------|-----------------|------------|
| January 31, | Restated | 2004 | Increase |
| (In millions) | | | |
| CVI | \$ 121.1 | \$ 87.0 | 39% |
| CSI | 26.5 | 22.7 | 17% |
| | <u>\$ 147.6</u> | <u>\$ 109.7</u> | <u>34%</u> |

CVI Net Sales:

| Three Months Ended | 2005 | | | % of 2005 |
|--------------------|-----------------|----------------|------------|-------------|
| January 31, | Restated | 2004 | Growth | Net Sales |
| (In millions) | | | | |
| Segment | | | | |
| Americas | \$ 60.3 | \$ 48.3 | 25% | 50% |
| Europe | 48.0 | 34.0 | 41% | 40% |
| Asia/Pacific | 12.8 | 4.7 | 170% | 10% |
| | <u>\$ 121.1</u> | <u>\$ 87.0</u> | <u>39%</u> | <u>100%</u> |

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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

CVI's worldwide net sales grew 39% in the quarter, 34% in constant currency. Americas sales grew 25%, 24% in constant currency. European sales grew 41%, 31% in constant currency. Sales to the Asia-Pacific region grew 170%, 163% in constant currency. Net sales of Ocular have been included since the acquisition date of January 6, 2005.

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 for patients experiencing the symptoms of dry eye syndrome.

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 comprise over 57% 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 primary reason for CVI's growth is the acquisition of Ocular; however, sales growth includes continued global market share gains during the quarter with disposable sphere revenue up 55%, disposable toric revenue up 44%, disposable multifocal revenue up 131% and total toric revenue up 28%. CVI's line of specialty lenses grew 29% during the quarter. Sales increases also resulted from the global rollout of *Proclear* toric that increased 89% to \$5.6 million and the launch of *Proclear* multifocal lenses with first quarter 2005 sales of \$1.6 million. Daily disposable sphere sales were about \$6 million. 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. While unit growth and product mix have influenced revenue growth, average realized prices by product have not materially influenced revenue growth.

CSI Net Sales: Women's healthcare products used primarily in obstetricians' and gynecologists' practices generate about 90% of CSI's sales. The balance are sales of medical devices outside of women's healthcare which CSI does not actively market. CSI's first quarter net sales increased 17% to \$26.5 million. The incremental sales growth of \$3.8 million was from the acquisition of Milex in February 2004, and organic growth of existing products of about 10%. 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 net sales (margin) was:

| | Margin | |
|--------------|---------------------------|-------------|
| | Three Months Ended | |
| | January 31, | |
| | 2005 | |
| | Restated | 2004 |
| | <hr/> | <hr/> |
| CVI | 64% | 66% |
| CSI | 55% | 54% |
| Consolidated | 62% | 64% |

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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

CVI's margin for the first quarter of fiscal 2005 was 64% compared with 66% for the first quarter last year, primarily due to the \$2.1 million write off of the inventory step up adjustment and \$249,000 of nonrecurring restructuring expenses. CVI manufactures about 50% of its lenses in the United Kingdom. The favorable impact of the change in foreign currency exchange rates on revenue is offset by the unfavorable impact on manufacturing costs and has minimal impact on margins.

CSI's margin was 55%, compared with 54% for the first fiscal quarter last year. Higher gross margin reflects continuing efficiencies from the integration of acquisitions, partially offset by foreign exchange variances as CSI imports 27% of inventory from Europe and Canada.

Selling, General and Administrative (SGA) Expense:

| Three Months Ended January 31, | 2005 Restated | % Net Sales | 2004 | % Net Sales | % Increase |
|--------------------------------|------------------|----------------|----------------|----------------|---------------|
| (\$ in millions) | | | | | |
| CVI | \$ 46.6 | 38% | \$ 33.7 | 39% | 38% |
| CSI | 10.0 | 38% | 6.4 | 28% | 56% |
| Headquarters | 3.8 | | 3.1 | | 23% |
| | <u>\$ 60.4</u> | 41% | <u>\$ 43.2</u> | 39% | 40% |

In the first quarter of 2005, restated consolidated SGA increased 40%, and as a percentage of restated revenue, increased by 2% as compared with 2004. Acquisitions contributed largely to the SGA increases. About \$1.6 million of the SGA increase reflects the relative weakness of the U.S. dollar against foreign currencies; with \$24.6 million of our SGA outside the U.S. The increase in CSI's SGA reflects the decision to invest in sales and marketing to increase organic growth. Corporate headquarters' expenses, which increased 23% to \$3.8 million, include added costs due to the Ocular acquisition, continued expenses for projects to maintain the Company's global trading arrangement and costs to comply with corporate governance requirements.

Research and Development Expense: During the first fiscal quarter, CVI research and development expenditures were \$2.0 million, up 96% over the first quarter of 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, a daily wear lens incorporating the *Proclear* lens material and products that address specific needs in the Asia-Pacific market. CSI's research and development expenditures of \$800,000 were for upgrading and redesign of many CSI's products in osteoporoses, in-vitro fertilization, incontinence, assisted reproductive technology and other obstetrical and gynecological product development activities.

Restructuring: Restated restructuring expenses of \$666,000 are CVI operating expenses associated with the integration of Ocular.

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Operating Income (Expense): Restated operating income improved by \$1.7 million, or 7%, in the fiscal first quarter.

| <u>Three Months Ended January 31,</u> | <u>2005</u> | <u>% Net</u> | <u>2004</u> | <u>% Net</u> | <u>%</u> |
|---------------------------------------|-----------------|--------------|----------------|--------------|-----------------|
| | <u>Restated</u> | <u>Sales</u> | | <u>Sales</u> | <u>Increase</u> |
| (\$ in millions) | | | | | |
| CVI | \$ 26.9 | 22% | \$ 22.6 | 26% | 19% |
| CSI | 3.5 | 13% | 5.4 | 24% | (35%) |
| Headquarters | (3.8) | | (3.1) | | (23%) |
| | <u>\$ 26.6</u> | <u>18%</u> | <u>\$ 24.9</u> | <u>23%</u> | <u>7%</u> |

Interest Expense: Restated interest expense increased by \$2.2 million or 145%. 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 \$627 million in loans on our credit facility at January 31, 2005 compared to \$63.9 million outstanding on January 31, 2004.

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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

Other Income (Expense), Net:

| Three Months Ended January 31, | 2005 | 2004 |
|---------------------------------------|----------|--------|
| (In thousands) | | |
| Interest income | \$ 200 | \$ 102 |
| Foreign exchange gain (loss) | 481 | (342) |
| Unamortized debt issuance costs | (1,602) | |
| Gain on sale of marketable securities | 120 | 712 |
| Other | 187 | 8 |
| | \$ (614) | \$ 480 |

In the first quarter 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.

Provision for Income Taxes: We recorded restated tax expense of \$4.6 million in the first quarter of fiscal 2005 compared to \$5.5 million in the first quarter of fiscal 2004 on income before income taxes. The restated effective tax rate for the first quarter of fiscal 2005 (provision for taxes divided by income before taxes) was approximately 21 percent compared to approximately 23 percent for the first quarter 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**First Quarter Highlights:**

Restated operating cash flow \$35.8 million vs. \$6.8 million in 2004's first quarter.

Cash payments for acquisitions totaled \$615.7 million.

Expenditures for purchases of property, plant and equipment (PP&E) \$11.6 million vs. \$6.9 million in 2004's first quarter.

Comparative Statistics (\$ in millions):

| | January 31, 2005 | October 31, 2004 |
|--|-----------------------------|-----------------------------|
| | Restated | |
| Cash and cash equivalents | \$ 28.5 | \$ 39.4 |
| Total assets | \$ 2,145.9 | \$ 811.6 |
| Working capital | \$ 242.2 | \$ 192.9 |
| Total debt | \$ 742.4 | \$ 165.7 |
| Stockholders' equity | \$ 1,203.7 | \$ 544.2 |
| Ratio of debt to equity | 0.62:1 | 0.30:1 |
| Debt as a percentage of total capitalization | 38% | 23% |
| Operating cash flow - twelve months ended | \$ 130.2 | \$ 101.2 |

Operating Cash Flow: Restated cash flow provided from operating activities continues as Cooper's major source of liquidity, totaling \$35.8 million in the first quarter of fiscal 2005 and \$130.2 million over the twelve-month period ended January 31, 2005.

Major uses of cash for operating activities in the first quarter included \$2.9 million to fund entitlements under Cooper's bonus plans and \$9.0 million in interest payments.

Restated working capital increased \$49.3 million in the first quarter of fiscal 2005 due to increases of \$89.4 million in inventory, \$45.7 million in receivables and \$11.9 million in current deferred tax assets and other. These increases were partially offset as cash decreased \$10.9 million, primarily to fund acquisitions, marketable securities decreased \$1.8 million from sales of securities, current accrued liabilities and accounts

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payable increased \$84.4 million, and short-term debt increased \$568,000. 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 quarter, Cooper's inventory months on hand (MOH) decreased to 6.8 from 7.5 in last year's first quarter. Also, our days sales outstanding (DSO) decreased to 65 days from 69 days in last year's first quarter. For comparability, these DSO's and MOH's are pro forma, calculated including Ocular's results of operations for the entire first fiscal quarter of 2005. 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 \$625.5 million from investing activities was driven by payments of \$615.7 million for acquisitions, primarily the purchase of Ocular, and capital expenditures of \$11.6 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 \$578.6 million from financing activities was driven by proceeds from long-term debt of \$675.0 million and \$10.7 million from the exercise of stock options, partially offset by repayment of debt of \$98.4 million, payment of debt acquisition costs of \$7.7 million and dividends on our common stock of \$983,000 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

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.

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 have 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

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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.

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.

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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

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.

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.

Outlook

We believe that cash and cash equivalents on hand of \$28.5 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 \$120 - \$130 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 January 31, 2005, we had \$119 million available under the KeyBank line of credit.

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

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 February 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 80% of our debt is fixed rate.

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 January 31, 2005, we had outstanding borrowings of \$627 million on the credit facility with \$475 million on the term loans and \$152 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. 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. We repaid the revolving facility obligation existing at October 31, 2004 of \$3 million for the 2006 and 2007 period. For the existing revolving facility, we are obligated to repay \$152 million in fiscal year 2010.

Due to the acquisition of Ocular, at January 31, 2005 Cooper had additional restated operating lease obligations of \$26 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 million thereafter.

As of January 31, 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:

| Fiscal Year | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | Total | Fair Value |
|------------------------|---------|---------|---------|---------|---------|------------|----------|------------|
| (\$ in millions) | | | | | | | | |
| Long-term debt | | | | | | | | |
| Variable interest rate | \$ 10.1 | \$ 38.6 | \$ 50.5 | \$ 54.6 | \$ 67.3 | \$ 407.5 | \$ 628.6 | \$ 628.6 |
| Average interest rate | 4.3% | 4.3% | 4.3% | 4.3% | 4.3% | 4.3% | | |

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. The Company's Chief Executive Officer and Chief Financial Officer, based upon their evaluation as of January 31, 2005, the end of the fiscal quarter covered by this report, concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level. As further discussed below, a material weakness was identified in the Company's internal control over financial reporting as of January 31, 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 weakness, the Company re-evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of January 31, 2005. Based upon this re-evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of January 31, 2005 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.

There was no change in the Company's internal control over financial reporting during the Company's fiscal quarter ended January 31, 2005 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 material weakness in the Company's internal control over financial reporting: 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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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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.

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 amount of taxes (and penalties) asserted in 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.

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 the Company.

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

A Special Meeting of Stockholders was held on November 16, 2004, at which stockholders voted to approve the issuance of common stock of The Cooper Companies, Inc. pursuant to the Agreement and Plan of Merger by and among The Cooper Companies, Inc., TCC Acquisition Corp. and Ocular Sciences, Inc. A total of 24,673,211 shares were voted in favor of the issuance, 174,728 shares were voted against it and 30,767 shares abstained.

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PART II - OTHER INFORMATION - Continued

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

| <u>Exhibit Number</u> | <u>Description</u> |
|------------------------------|--|
| 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 8 to the Consolidated Condensed Financial Statements in this report.

(b) The Company filed the following reports on Form 8-K during the period November 1, 2004 to January 31, 2005.

| <u>Date of Report</u> | <u>Item Reported</u> |
|------------------------------|--|
| November 16, 2004 | Item 8.01 Other Events Item 9.01 Financial Statements and Exhibits |
| December 13, 2004 | Item 1.01 Entry into a Material Definitive Agreement Item 9.01 Financial Statements and Exhibits |
| January 5, 2005 | Item 8.01 Other Events Item 9.01 Financial Statements and Exhibits |
| January 6, 2005 | Item 1.01 Entry into a Material Definitive Agreement Item 2.01 Completion of Acquisition or Disposition of Assets Item 2.03 Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers Item 7.01 Regulation FD Disclosure Item 9.01 Financial Statements and Exhibits |
| January 6, 2005 | Item 1.01 Entry into a Material Definitive Agreement Item 9.01 Financial Statements and Exhibits |
| January 6, 2005 | Item 1.01 Entry into a Material Definitive Agreement Item 9.01 Financial Statements and Exhibits |

The Company furnished on Form 8-K dated December 13, 2004 a report of Item 2.02 Results of Operations and Financial Condition and Item 9.01 Financial Statements and Exhibits.

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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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| <u>Exhibit No.</u> | | <u>Page No.</u> |
|--------------------|--|-----------------|
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| 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 8 to the Consolidated Condensed Financial Statements in this report.