

COOPER COMPANIES INC
Form 10-K/A
June 23, 2006
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2005

COMMISSION FILE NO. 1-8597

THE COOPER COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation)	94-2657368 (I.R.S. Employer Identification No.)
6140 Stoneridge Mall Road, Suite 590 Pleasanton, California (Address of principal executive offices)	94588 (Zip Code)
925-460-3600 (Registrant's telephone number, including area code)	

Securities registered pursuant to Section 12(b) of the Act:

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Title of each class	Name of each exchange on which registered
Common Stock, \$.10 par value, and associated rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). 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

On December 31, 2005, there were 43,407,330 shares of the registrant's common stock held by non-affiliates with aggregate market value of \$2.9 billion on April 30, 2005, the last day of the registrant's most recently completed second fiscal quarter.

Number of shares outstanding of the registrant's common stock, as of December 31, 2005: 44,503,798

Documents Incorporated by Reference:

Document	Part of Form 10-K
Portions of the Proxy Statement for the Annual Meeting of Stockholders held on March 21, 2006	Part III

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THE COOPER COMPANIES, INC.

FORM 10-K/A

(Amendment No. 2)

For the Fiscal Year ended October 31, 2005

EXPLANATORY NOTE

This is the second of two amendments to our Annual Report on Form 10-K for the fiscal year ended October 31, 2005 (the Original Report). Neither of these amendments involves any change to the financial information contained in the Original Report.

We filed the Original Report with the Securities and Exchange Commission (SEC) on January 17, 2006. We amended the Original Report pursuant to Amendment No. 1 filed with the SEC on February 8, 2006 (Amendment No. 1) to replace the Report of Independent Registered Public Accounting Firm with respect to such firm's audit of management's assessment of the company's internal control over financial reporting as of October 31, 2005, on page 51 of the Original Report, with a revised Report of Independent Registered Public Accounting Firm reflecting changes in the fifth and eighth paragraphs thereof which were inadvertently omitted from the report as included in the Original Report. Amendment No. 1 also included, as Exhibit 23, a Consent and Report on Schedule of Independent Registered Public Accounting Firm which replaced the consent filed as Exhibit 23 to the Original Report. Amendment No. 1 made no other changes to the information contained in the Original Report.

This Amendment No. 2 to the Original Report is being filed to include the complete text of Item 8 from the Original Report, as amended by Amendment No. 1. In addition, because we are refiled Item 8, as so amended, the Consent and Report on Schedule of Independent Registered Public Accounting Firm, included as Exhibit 23 to Amendment No. 1, has been replaced by the Consent and Report on Schedule of Independent Registered Public Accounting Firm included as Exhibit 23 to this amendment, and new certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 207 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley, are included in this amendment as Exhibits 31.3 and 31.4, and Exhibits 32.3 and 32.4, respectively.

This Amendment contains no changes to the Item 8 information contained in the Original Report as amended by Amendment No. 1, and does not amend any other Item contained in the Original Report. Since our filing of the Original Report, we have filed our Form 10-Q for the fiscal quarter ended January 31, 2006, and our Form 10-Q for the fiscal quarter ended April 20, 2006, with the SEC on March 13, 2006 and June 9, 2006, respectively, which quarterly reports contain information about our business, financial condition and results of operations since October 31, 2005 and the filing of the Original Report.

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PART II

Item 8. *Financial Statements and Supplementary Data.*

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

The Cooper Companies, Inc.

We have audited the accompanying consolidated balance sheets of The Cooper Companies, Inc. and subsidiaries as of October 31, 2005 and 2004, and the related consolidated statements of income, cash flows, and comprehensive income for each of the years in the three-year period ended October 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Cooper Companies, Inc. and subsidiaries as of October 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended October 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Cooper Companies, Inc.'s internal control over financial reporting as of October 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated January 17, 2006 expressed an unqualified opinion on management's assessment of, and an adverse opinion on the effective operation of, internal control over financial reporting.

KPMG LLP

San Francisco, California

January 17, 2006

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

The Cooper Companies, Inc.

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that The Cooper Companies, Inc. did not maintain effective internal control over financial reporting as of October 31, 2005, because of the effect of a material weakness identified in management's assessment, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of The Cooper Companies, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control 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. The following material weakness in internal control over financial reporting has been identified and included in management's assessment as of October 31, 2005: The Company did not have sufficient personnel with adequate knowledge regarding accounting for acquisitions in accordance with generally accepted accounting principles. In addition, the Company did not have policies and procedures regarding a periodic review of existing accrued liabilities related to business combinations. This material weakness resulted in the restatement of the Company's previously issued financial statements for the quarters ended January 31, April 30 and July 31, 2005, to correct errors related to the purchase price allocation and resulting amortization of intangible assets acquired in the Ocular acquisition. In addition, similar errors were identified in the Company's October 31, 2005 financial statements prior to the issuance of such financial statements. This deficiency results in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets as of October 31, 2005 and 2004, and the related consolidated statements of income, cash flows and comprehensive income of The Cooper Companies, Inc. and subsidiaries. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and this report does not affect our report dated January 17, 2006, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, management's assessment that The Cooper Companies, Inc. did not maintain effective internal control over financial reporting as of October 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, The Company has not maintained effective internal control over financial reporting as of October 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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The Company acquired Ocular Sciences, Inc. during 2005 and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of October 31, 2005, certain divisions of Ocular Sciences, Inc.'s internal control over financial reporting associated with assets of approximately 11% of consolidated assets, liabilities of approximately 4% of consolidated liabilities and revenues of 26% of consolidated revenues, included in the consolidated financial statements of The Cooper Companies, Inc. as of and for the year ended October 31, 2005. Our audit of internal control over financial reporting of The Cooper Companies, Inc. also excluded an evaluation of the internal control over financial reporting of these divisions of Ocular Sciences, Inc.

/s/ KPMG LLP

San Francisco, California

January 17, 2006

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Consolidated Statements of Income****Years Ended October 31,**

(In thousands, except per share amounts)	2005	2004	2003
Net sales	\$ 806,617	\$ 490,176	\$ 411,790
Cost of sales	309,785	174,346	146,588
Gross profit	496,832	315,830	265,202
Selling, general and administrative expense	297,953	190,534	162,852
Research and development expense	42,879	6,493	5,573
Restructuring costs	8,462		
Amortization of intangibles	11,704	2,052	1,535
Operating income	135,834	116,751	95,242
Interest expense	28,123	6,004	6,964
Other income, net	746	1,742	2,209
Income before income taxes	108,457	112,489	90,487
Provision for income taxes	16,735	19,664	21,717
Net income	\$ 91,722	\$ 92,825	\$ 68,770
Basic earnings per share	\$ 2.18	\$ 2.85	\$ 2.20
Diluted earnings per share	\$ 2.04	\$ 2.59	\$ 2.09
Number of shares used to compute earning per share:			
Basic	42,021	32,534	31,226
Diluted	45,983	36,613	33,245

See accompanying notes to consolidated financial statements.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

October 31,

(In thousands)	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,826	\$ 39,368
Trade accounts receivable, net of allowance for doubtful accounts \$7,232 in 2005 and \$4,486 in 2004	152,610	99,269
Inventories	185,693	107,607
Deferred tax assets	23,449	20,296
Marketable securities		1,829
Prepaid expenses and other current assets	51,136	36,129
Total current assets	443,714	304,498
Property, plant and equipment, at cost	477,244	221,373
Less accumulated depreciation and amortization	97,459	70,308
	379,785	151,065
Goodwill	1,169,049	310,600
Other intangibles, net	151,413	31,768
Deferred tax assets	19,716	10,315
Other assets	16,153	3,315
	\$ 2,179,830	\$ 811,561
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term debt	\$ 72,260	\$ 20,871
Accounts payable	36,042	21,684
Employee compensation and benefits	30,896	17,456
Accrued acquisition costs	41,110	11,843
Accrued income taxes	26,454	15,171
Other accrued liabilities	50,860	24,564
Total current liabilities	257,622	111,589
Long-term debt	632,652	144,865
Deferred tax liability	9,118	6,026
Accrued pension liability and other	7,213	4,920
Total liabilities	906,605	267,400
Commitments and Contingencies (see Note 11)		
Stockholders equity:		
Preferred stock, 10 cents par value, shares authorized: 1,000; zero shares issued or outstanding		
Common stock, 10 cents par value, shares authorized: 70,000; issued 44,896 and 33,336 at October 31, 2005 and 2004, respectively	4,490	3,334
Additional paid-in capital	977,317	327,811

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Accumulated other comprehensive income	14,114	26,971
Retained earnings	284,437	195,021
Treasury stock at cost: 465 and 585 shares at October 31, 2005 and 2004, respectively	(7,133)	(8,976)
Stockholders' equity	1,273,225	544,161
	\$ 2,179,830	\$ 811,561

See accompanying notes to consolidated financial statements.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

Years Ended October 31,

(In thousands)	2005	2004	2003
Cash flows from operating activities:			
Net income	\$ 91,722	\$ 92,825	\$ 68,770
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	2,670	12,182	7,268
Depreciation expense	36,934	13,599	10,990
Provision for doubtful accounts	1,922	2,218	1,598
Amortization expense	11,704	2,052	1,535
In-process research and development expense	20,000		
Impairment of property, plant and equipment	3,245	666	
Change in operating assets and liabilities excluding effects from acquisitions:			
Receivables	(2,882)	(15,438)	(12,266)
Inventories	(13,596)	(15,126)	(12,860)
Other assets	(1,661)	4,825	599
Accounts payable	10,554	5,383	467
Accrued liabilities	6,990	(5,966)	8,857
Income taxes payable	13,838	(1,951)	6,510
Other long-term liabilities	2,403	5,929	(1,912)
Cash provided by operating activities	183,843	101,198	79,556
Cash flows from investing activities:			
Acquisitions of assets and businesses	(627,006)	(63,942)	(75,158)
Purchases of property, plant and equipment	(117,093)	(40,505)	(33,872)
Sale of marketable securities and other	1,779	3,810	1,602
Cash used by investing activities	(742,320)	(100,637)	(107,428)
Cash flows from financing activities:			
Proceeds from long-term line of credit	785,000	29,000	136,700
Repayment of long-term line of credit	(277,625)	(47,750)	(200,643)
Acquisition costs of long-term line of credit	(7,697)		
Proceeds from debenture offering			112,181
Issuance costs of debenture offering			(1,162)
Principal payments on long-term obligations	(2,173)	(2,277)	(1,987)
Net borrowings (repayments) under short-term agreements	31,427	531	(2,519)
Exercise of stock options	25,163	13,766	23,986
Dividends on common stock	(2,306)	(1,943)	(1,952)
Cash provided by (used by) financing activities	551,789	(8,673)	64,604
Effect of exchange rate changes on cash and cash equivalents	(1,854)	47	446
Net (decrease) increase in cash and cash equivalents	(8,542)	(8,065)	37,178
Cash and cash equivalents at beginning of year	39,368	47,433	10,255
Cash and cash equivalents at end of year	\$ 30,826	\$ 39,368	\$ 47,433

Supplemental disclosures of cash flow information:

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Cash paid for:			
Interest (net of amounts capitalized)	\$ 26,551	\$ 5,429	\$ 5,797
Income taxes	\$ 2,790	\$ 3,505	\$ 7,288
Supplemental disclosure of non-cash investing and financing activities:			
Ocular Sciences, Inc. acquisition (see Note 2. Acquisitions):			
Fair value of assets acquired	\$ 1,367,604		
Less:			
Cash paid	(605,250)		
Company stock issued	(622,912)		
Liabilities assumed and acquisition costs accrued	\$ 139,442		

See accompanying notes to consolidated financial statements.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****Years Ended October 31,**

(In thousands)	2005	2004	2003
Net income	\$ 91,722	\$ 92,825	\$ 68,770
Other comprehensive income (loss):			
Foreign currency translation adjustment	(16,427)	15,324	16,504
Change in value of derivative instruments, net of tax	3,616	43	96
Additional minimum pension liability, net of tax	(56)	(1,113)	(950)
Unrealized gain (loss) on marketable securities:			
Gain (loss) arising during period	81	(543)	3,244
Reclassification adjustment*	(71)	(866)	(372)
Unrealized gain (loss) on marketable securities	10	(1,409)	2,872
Other comprehensive (loss) income, net of tax	(12,857)	12,845	18,522
Comprehensive income	\$ 78,865	\$ 105,670	\$ 87,292

* To address realization of gain on sales of marketable securities. Realized gains appear in net income. Unrealized gains and losses are in other comprehensive income.

Analysis of changes in accumulated other comprehensive income (loss):

(In thousands)	Foreign Currency Translation Adjustment	Change in Value of Derivative Instruments	Unrealized Gain (Loss) on Marketable Securities	Minimum Pension Liability	Total
Balance October 31, 2002	\$ (1,617)	\$ (225)	\$ (1,473)	\$ (1,081)	\$ (4,396)
2003 activity	16,504	96	2,872	(950)	18,522
Balance October 31, 2003	14,887	(129)	1,399	(2,031)	14,126
2004 activity	15,324	43	(1,409)	(1,113)	12,845
Balance October 31, 2004	30,211	(86)	(10)	(3,144)	26,971
2005 activity	(16,427)	3,616	10	(56)	(12,857)
Balance October 31, 2005	\$ 13,784	\$ 3,530	\$	\$ (3,200)	\$ 14,114

See accompanying notes to consolidated financial statements.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

General

The Cooper Companies, Inc. (the Company, Cooper, we and similar pronouns), through its principal business units, develops, manufactures and markets healthcare products. CooperVision (CVI) develops, manufactures and markets a broad range of contact lenses for the worldwide vision correction market. Its leading products are disposable spherical and specialty contact lenses. CVI is a leading manufacturer of toric lenses, which correct astigmatism, multifocal lenses for presbyopia (blurring near vision due to advancing age), cosmetic lenses that change or enhance the appearance of the color of the eye and spherical lenses that correct the most common visual defects. CooperSurgical (CSI) develops, manufactures and markets medical devices, diagnostic products and surgical instruments and accessories used primarily by gynecologists and obstetricians.

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 CSI 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 economies.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. 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 fiscal third quarter 2005 and 2004, and our analysis indicated that we had no goodwill impairment.

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

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, 2005 review and using several valuation techniques including assessing industry multiples, for CVI ranged from \$1.9 billion to \$3.6 billion compared to a carrying value of \$1.7 billion and for CSI ranged from \$260 million to \$436 million compared to a carrying value of \$174 million.

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

Income taxes As part of the process of preparing our consolidated financial statements, we must estimate our income tax expense for each of the jurisdictions in which we operate. This process requires significant management judgments and involves estimating our current tax exposures in each jurisdiction including the impact, if any, of additional taxes resulting from tax examinations as well as judging the recoverability of deferred tax assets. To the extent recovery of deferred tax assets is not likely based on our estimation of future taxable income in each jurisdiction, a valuation

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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.

Consolidation

The financial statements in this report include the accounts of all of Cooper's consolidated entities. All significant intercompany transactions and balances are eliminated in consolidation.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Foreign Currency Translation

Most of our operations outside the United States use their local currency as their functional currency. We translate these assets and liabilities into U.S. dollars at year-end exchange rates. We translate income and expense accounts at weighted average rates for each year. We record gains and losses from the translation of financial statements in foreign currencies into U.S. dollars in other comprehensive income. We record gains and losses from changes in exchange rates on transactions denominated in currencies other than each reporting location's functional currency in net income for each period. Net foreign exchange (losses) gains included in other income for the years ended October 31, 2005, 2004 and 2003 were \$(376,000), \$69,000 and \$1.8 million, respectively.

Derivatives

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

Litigation

We are subject to various claims and contingencies relating to litigation arising out of the normal course of business. If we believe the likelihood of an adverse legal outcome is probable and the amount is estimable we accrue a liability in accordance with FASB Statement No. 5, Accounting for Contingencies. We consult with legal counsel on matters related to litigation and seek input from other experts both within and outside the Company with respect to matters in the ordinary course of business.

Long-Lived Assets

The Company reviews long-lived assets held and used, intangible assets with finite useful lives and assets held for sale for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If an evaluation of recoverability was required, the estimated undiscounted future cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down was required. If the undiscounted cash flows are less than the carrying amount, an impairment loss is recorded to the extent that the carrying amount exceeds the fair value. If Management has committed to a plan to dispose of long-lived assets, the assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

Cash and Cash Equivalents

Cash and cash equivalents include commercial paper and other short-term income producing securities with maturity dates of three months or less. These investments are readily convertible to cash and are carried at cost, which approximates market value.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Inventories**

October 31,

(In thousands)	2005	2004
Raw materials	\$ 26,161	\$ 15,914
Work-in-process	16,083	13,152
Finished goods	143,449	78,541
	\$ 185,693	\$ 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.

Property, Plant and Equipment

October 31,

(In thousands)	2005	2004
Land and improvements	\$ 1,754	\$ 1,799
Buildings and improvements	62,237	35,122
Machinery and equipment	413,252	184,452
Less: Accumulated depreciation	(97,458)	(70,308)
	\$ 379,785	\$ 151,065

Property, plant and equipment are stated at cost. We compute depreciation using the straight-line method in amounts sufficient to write off depreciable assets over their estimated useful lives. We amortize leasehold improvements over their estimated useful lives or the period of the related lease, whichever is shorter. We depreciate buildings over 35 to 40 years and machinery and equipment over 3 to 15 years.

We expense costs for maintenance and repairs and capitalize major replacements, renewals and betterments. We eliminate the cost and accumulated depreciation of depreciable assets retired or otherwise disposed of from the asset and accumulated depreciation accounts and reflect any gains or losses in operations for the period.

Earnings Per Share

We determine basic earnings per share (EPS) by using the weighted average number of shares outstanding. We determine diluted EPS by increasing the weighted average number of shares outstanding in the denominator by the number of outstanding dilutive stock options using the treasury stock method and, in accordance with the if-converted method, the number of shares of common stock contingently issuable pursuant to the debentures. In addition, the numerator is adjusted to add back the after-tax amount of interest recognized in the period associated with the debentures (see Note 4. Earnings Per Share).

Stock-Based Compensation

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As allowed by FASB Statement No. 123, Accounting for Stock-Based Compensation, 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

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

expense using the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations (see Note 9. Employee Stock Plans). 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 SFAS 123R effective November 1, 2005.

The pro forma impact of stock-based compensation determined under fair value based methods was changed for 2004 and 2003 to reflect the lack of tax deductibility of compensation expense on awards issued to employees in foreign countries. These changes resulted in a decrease of pro forma net income of \$986,000 and \$2.5 million for the years ended October 31, 2004 and 2003, respectively.

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.

Years Ended October 31,

(In thousands, except per share amounts)	2005	2004	2003
Net income, as reported	\$ 91,722	\$ 92,825	\$ 68,770
Add: Stock-based director compensation expense included in reported net income, net of related tax effects	358	171	167
Deduct: Total stock-based employee and director compensation expense determined under fair value based method, net of related tax effects	(7,521)	(5,143)	(11,358)
Pro forma net income	\$ 84,559	\$ 87,853	\$ 57,579
Basic earnings per share			
As reported	\$ 2.18	\$ 2.85	\$ 2.20
Pro forma	\$ 2.01	\$ 2.70	\$ 1.84
Diluted earnings per share			
As reported	\$ 2.04	\$ 2.59	\$ 2.09
Pro forma	\$ 1.90	\$ 2.47	\$ 1.77

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in fiscal 2005, 2004 and 2003: dividend yield: 0.089%, 0.120% and 0.215%, expected volatility: 27%, 28% and 37%; expected option lives of 3.5 years for all three years and risk-free interest rates of 4.1%, 3.0% and 2.6%, respectively.

Note 2. Acquisitions

All acquisitions disclosed here have been accounted for as purchases. Accordingly, results of operations for acquired companies are included in our consolidated results of operations from the date of acquisition.

Acquisition of Ocular

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 customer and distribution channel.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

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.

In the fiscal fourth quarter, Cooper finalized the allocation of the purchase price based on Ocular's December 31, 2004, unaudited financial statements, and our estimates of the fair values of Ocular's assets and liabilities, including the results of a valuation performed by an independent valuation firm. We ascribed \$857.6 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, \$357 million to tangible assets, \$20 million to in-process research and development, and \$139 million to liabilities assumed including about \$59.5 million of accrued acquisition costs.

In the fiscal fourth quarter, Cooper wrote off acquired in-process research and development of \$20 million to research and development expense for projects, primarily related to silicone hydrogel product development, that had not yet reached technological feasibility as of the acquisition date and for which no future alternative use existed.

The results of Ocular's operations are included in the Company's Consolidated Statements of Income for the twelve-month fiscal period ended October 31, 2005 from January 6, 2005, the acquisition date.

Pro Forma

The following reflects the Company's unaudited pro forma results had the unaudited 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.

(In millions, except per share amounts)	Twelve Months Ended October 31,	
	2005	2004
<i>Pro Forma</i>		
Net sales	\$ 857.3	\$ 823.0
Net income	\$ 70.2	\$ 89.6
Diluted earnings per share	\$ 1.51	\$ 1.94
Restructuring		

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

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

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

(In millions)	Plant Shutdown	Severance	Other	Total
Restructuring costs incurred through October 31, 2005	\$ 1.9	\$ 2.1	\$ 6.5	\$ 10.5

Acquisition of Opti-Centre

On March 31, 2004, CVI acquired all the outstanding shares and certain patents of Les Laboratoires Opti-Centre Inc. (Opti-Centre), a Quebec-based contact lens manufacturer, which holds the patents covering CVI's multifocal lens design technology used in its Frequency[®] and Proclear[®] multifocal products.

We paid \$11.6 million in cash for Opti-Centre. We ascribed \$2.8 million to goodwill, \$10.2 million to other intangibles, \$400,000 to property, plant and equipment and a negative \$1.8 million to a working capital deficit (including acquisition costs of \$1.3 million).

Acquisition of Argus

On February 23, 2004, CVI acquired from privately owned Argus Biomedical Pty Ltd the assets related to AlphaCor[®], an artificial cornea, and AlphaSphere[®], a soft orbital implant.

We paid \$2.1 million in cash for Argus with future royalties payable on AlphaCor[®] sales. We ascribed \$2.5 million to goodwill, a negative \$500,000 to a working capital deficit (including acquisition costs of \$400,000) and \$100,000 to property, plant and equipment.

Our ophthalmic surgery business unit, CooperVision Surgical, develops and markets the Argus products to corneal surgeons.

Acquisition of Milex

On February 2, 2004, CSI acquired Milex Products, Inc. (Milex), a manufacturer and marketer of obstetric and gynecologic products and customized print services for \$25.6 million in cash and assumed \$2.5 million of long-term debt. The debt was repaid immediately after the acquisition.

We have ascribed \$23.8 million to goodwill, \$3.6 million to property, plant and equipment, \$800,000 to other intangibles, a negative \$1.4 million to a working capital deficit (including acquisition costs of \$3.8 million), and \$1.3 million to deferred tax assets.

Milex is a leading supplier of pessaries - products used to medically manage female urinary incontinence and pelvic support conditions - cancer screening products including endometrial and endocervical sampling devices, and patient education materials tailored to individual physician preferences.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Acquisition of SURx

On November 26, 2003, CSI purchased from privately-held SURx, Inc., the assets and associated worldwide license rights for the Laparoscopic (LP) and Transvaginal (TV) product lines of its Radio Frequency Bladder Neck Suspension technology, which uses radio frequency based thermal energy rather than implants to restore continence.

We paid \$2.95 million in cash for SURx whose technology received U.S. Food and Drug Administration marketing clearance in 2002. We ascribed \$2.9 million to goodwill, a negative \$163,000 to a working capital deficit (including net acquisition costs of \$489,000), \$73,000 to other intangibles and \$77,000 to property, plant and equipment.

Acquisition of Avalon Medical Corporation

On October 28, 2003, CSI acquired Avalon Medical Corporation (Avalon), the United States distributor of the Filshie® Clip System, a device used worldwide to perform female sterilization.

We paid \$10 million in cash at closing for Avalon. We ascribed \$2.2 million to goodwill, a negative \$100,000 to a working capital deficit (including acquisition costs of \$600,000), \$8.2 million to other intangibles and \$44,000 to property, plant and equipment.

U.K.-based FemCare Limited, manufacturer of the Filshie® Clip, received U.S. Food and Drug Administration clearance to market the device in May 1996. CSI has successfully negotiated a long-term supply agreement with FemCare for the U.S. market.

Acquisition of Prism Enterprises, LP

On May 5, 2003, CSI acquired privately-held Prism Enterprises, LP. Prism develops, manufactures and markets medical devices and other disposable products for the obstetric, neonatal and gynecological markets.

We paid about \$23 million for Prism. We ascribed \$20.9 million to goodwill, \$800,000 to working capital (including net acquisition costs of \$600,000), \$1 million to other intangible assets and \$300,000 to property, plant and equipment.

Disposable products accounted for virtually all of Prism's 2002 revenue. In 2002, disposable vacuum assisted delivery (VAD) systems accounted for about 60% of Prism's revenue, and its disposable obstetric, neonatal and gynecological products made up the remainder.

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 their assessment of exit activities of the acquired companies and have substantially completed their plans. In addition, we also accrue for costs directly associated with acquisitions, including legal, consulting, deferred payments and due

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

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 twelve months ended October 31, 2005.

Description

(In thousands)	Balance 10/31/2004	Additions	Payments	Balance 10/31/2005
Plant shutdown	\$ 5,386	\$ 13,255	\$ 6,199	\$ 12,442
Severance	2,083	22,032	9,390	14,725
Legal & consulting	2,788	19,233	13,103	8,918
Preacquisition liabilities	768			768
Hold back due	137			137
Other	681	15,648	12,209	4,120
Total	\$ 11,843	\$ 70,168	\$ 40,901	\$ 41,110

Note 3. Intangible Assets

(In thousands)	CVI	CSI	Total
Goodwill:			
Balance as of November 1, 2004	\$ 190,772	\$ 119,828	\$ 310,600
Additions during the year ended October 31, 2005	859,094	1,683	860,777
Other adjustments*	(2,328)		(2,328)
Balance as of October 31, 2005	\$ 1,047,538	\$ 121,511	\$ 1,169,049

* Primarily translation differences in goodwill denominated in foreign currency.
Of the October 31, 2005 goodwill balance, \$69.6 million is expected to be deductible for tax purposes.

(In thousands)	As of October 31, 2005		As of October 31, 2004		Weighted Average
	Gross Carrying Amount	Accumulated Amortization & Translation	Gross Carrying Amount	Accumulated Amortization & Translation	Amortization Period (In years)
Other intangible assets:					
Trademarks	\$ 1,651	\$ 236	\$ 1,651	\$ 204	23
Technology	83,725	13,113	23,863	6,574	12
Shelf space and market share	70,224	4,033	224	127	15
License and distribution rights and other	17,117	3,922	16,190	3,255	17

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	172,717	\$	21,304	41,928	\$	10,160	14
Less accumulated amortization and translation	21,304			10,160			
Other intangible assets, net	\$ 151,413			\$ 31,768			

Estimated annual amortization expense is about \$13.2 million for each of the years in the five-year period ending October 31, 2010.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Note 4. Earnings Per Share****Years Ended October 31,**

(In thousands, except per share amounts)	2005	2004	2003
Net income	\$ 91,722	\$ 92,825	\$ 68,770
Add interest charge applicable to convertible debt, net of tax	2,096	2,095	726
Income for calculating diluted earnings per share	\$ 93,818	\$ 94,920	\$ 69,496
<i>Basic:</i>			
Weighted average common shares	42,021	32,534	31,226
Basic earnings per common share	\$ 2.18	\$ 2.85	\$ 2.20
<i>Diluted:</i>			
Weighted average common shares	42,021	32,534	31,226
Effect of dilutive stock options	1,372	1,489	1,048
Shares applicable to convertible debt	2,590	2,590	971
Diluted weighted average common shares	45,983	36,613	33,245
Diluted earnings per share	\$ 2.04	\$ 2.59	\$ 2.09

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

Years Ended October 31,	2005	2004	2003
Number of shares excluded	236,166	665,500	850,000
Range of exercise prices	\$ 72.94 - \$80.51	\$ 68.66	\$ 35.69 - \$41.44

Note 5. Income Taxes

The components of income from continuing operations before income taxes and extraordinary items and the income tax provision related to income from all operations in the consolidated statements of income consist of:

Years Ended October 31,

(In thousands)	2005	2004	2003
Income before income taxes:			
United States	\$ 14,757	\$ 41,539	\$ 25,080

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Foreign	93,700	70,950	65,407
	\$ 108,457	\$ 112,489	\$ 90,487
Income tax provision	\$ 16,735	\$ 19,664	\$ 21,717

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The income tax provision (benefit) related to income from continuing operations in the consolidated statements of income consists of:

Years Ended October 31,

(In thousands)	2005	2004	2003
Current:			
Federal	\$ 8,827	\$ 4,565	\$ 8,300
State	1,905	837	346
Foreign	3,333	2,080	6,270
	14,065	7,482	14,916
Deferred:			
Federal	1,143	8,799	7,278
State			
Foreign	1,527	3,383	(477)
	2,670	12,182	6,801
Total provision for income taxes	\$ 16,735	\$ 19,664	\$ 21,717

We reconcile the provision for income taxes attributable to income from operations and the amount computed by applying the statutory federal income tax rate of 35% to income before income taxes as follows:

Years Ended October 31,

(In thousands)	2005	2004	2003
Computed expected provision for taxes	\$ 37,960	\$ 39,371	\$ 31,670
Increase (decrease) in taxes resulting from:			
Income earned outside the United States subject to different tax rates	(21,308)	(18,391)	(11,181)
Foreign source income subject to U.S. tax	146	314	1,811
State taxes, net of federal income tax benefit	738	1,367	346
Change in valuation allowance	(253)	(1,341)	(85)
Tax accrual adjustment	(572)	(814)	
Other, net	24	(842)	(844)
Actual provision for income taxes	\$ 16,735	\$ 19,664	\$ 21,717

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities are:

October 31,

(In thousands)	2005	2004
Deferred tax assets:		
Accounts receivable, principally due to allowances for doubtful accounts	\$ 2,035	\$ 1,286
Inventories	6,354	2,903
Litigation settlements	21	1,188
Accrued liabilities, reserves and compensation accruals	6,883	3,859
Foreign deferred tax assets		231
Restricted stock	123	
Net operating loss carryforwards	54,151	31,121
Tax credit carryforwards	2,507	2,359
Total gross deferred tax assets	72,074	42,947
Less valuation allowance	(2,257)	(2,510)
Deferred tax assets	69,817	40,437
Deferred tax liabilities:		
Tax deductible goodwill	(4,976)	(3,335)
Plant and equipment	(7,114)	(12,517)
Transaction cost	(1,027)	
Foreign deferred tax liabilities	(1,459)	
Other intangible assets	(21,194)	
Total gross deferred tax liabilities	(35,770)	(15,852)
Net deferred tax assets	\$ 34,047	\$ 24,585

Cooper has provided a valuation allowance on those deferred tax assets that it believes will not, more likely than not, be realized. The net change in the total valuation allowance for the years ended October 31, 2005, 2004 and 2003 were decreases of \$253,000, \$1.8 million and \$507,000, respectively; a portion of those decreases relate to concurrent reductions in the deferred tax asset.

The Company has not provided for federal income tax on approximately \$287 million of undistributed earnings of its foreign subsidiaries since the Company intends to reinvest this amount outside the U.S. indefinitely. As a result, the Company has not availed itself of the favorable repatriation provisions of Internal Revenue Code Section 965.

At October 31, 2005, the Company had federal net operating loss carryforwards of \$145.7 million and state net operating loss carryforwards of \$45.7 million. Additionally, the Company had \$2.5 million of federal alternative minimum tax credits. The federal net operating loss carryforwards expire on various dates between 2007 through 2024, and the federal alternative minimum tax credits carry forward indefinitely. The state net operating loss carryforwards expire on various dates between 2014 through 2015. Among the net operating and other tax credit carryforwards, \$63.8 million of federal net operating losses and \$45.7 million of state net operating losses are attributable to the Ocular pre-acquisition years, which may be subject to certain limitations upon utilization. Under the current tax law, net operating loss and credit carryforwards available to offset future income in any given year

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may be limited by statute or upon the occurrence of certain events, including significant changes in ownership interests. The Company does not believe that any limitations triggered by Ocular's ownership change will have a material effect on its ability to utilize net operating losses.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Note 6. Debt**

October 31,

(In thousands)	2005	2004
Short-term:		
Overdraft facilities	\$ 33,981	\$ 531
Current portion of long-term debt	38,279	20,340
	\$ 72,260	\$ 20,871
Long-term:		
Convertible senior debentures, net of discount of \$2,540 and \$2,683	\$ 112,460	\$ 112,317
Credit facility	557,250	49,875
Capitalized leases	91	1,437
Other	1,130	1,576
	670,931	165,205
Less current portion	38,279	20,340
	\$ 632,652	\$ 144,865

Annual maturities of long-term debt as of October 31, 2005, excluding the potential repurchase of convertible debentures in 2008 are as follows:

Year	
(In thousands)	
2006	\$ 38,279
2007	50,553
2008	54,714
2009	67,370
2010	199,018

Credit Facility See Note 13. Subsequent Events.

Fiscal Year 2005

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

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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. We repaid \$9.8 million in fiscal year 2005. Projected principal payments are as follows: \$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 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 October 31, 2005, the additional basis points were 150 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, Leverage Ratio) be no higher than 3.75 to 1 January 31 through October 30, 2005, 3.0 to 1 October 31, 2005 through October 30, 2006 and 2.5 to 1 thereafter.

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

At October 31, 2005, Cooper's debt was 36% of total capitalization, the ratio of EBITDA to fixed charges (as defined) was 1.55 to 1, the Leverage Ratio was 2.88 to 1 and the Senior Leverage Ratio was 2.41 to 1.

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

At October 31, 2005, we had \$179.3 million available under the line of credit:

(In millions)

Amount of line	\$ 740.3
Outstanding loans	(561.0)*
Available	\$ 179.3

* Includes \$3.8 million in letters of credit backing other debt.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Fiscal Year 2004

On May 1, 2002, Cooper obtained a \$225 million syndicated bank credit facility. The facility consisted of a \$75 million five-year term loan with an interest only payment in the first year then fully amortized in the next four years, and a \$150 million three-year revolving credit facility. KeyBank National Association (KeyBank) was the agent for the eleven-bank syndication.

On July 31, 2003, the facility was amended to relax certain restrictions and extend the revolving credit facility maturity to April 30, 2007 from April 30, 2005.

Interest rates under the facility were based on the London Interbank Offered Rate (LIBOR) plus additional basis points determined by Cooper's ratio of debt to its earnings before interest, taxes, depreciation and amortization (EBITDA). These range from 125 to 225 basis points for the term loan and from 100 to 200 basis points for the revolver. As of October 31, 2004, the additional basis points were 150 on the term loan and 125 on the revolver. At the Company's option, it could choose to pay a base rate that is within a range above the prime rate.

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

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

Limited cash dividends on our common stock to \$5 million per fiscal year.

Required that the ratio of EBITDA to fixed charges (as defined in the agreement) be at least 1.3 to 1.

Required that the ratio of total debt to pro forma EBITDA (as defined) be no higher than 2.75 to 1 through January 30, 2003, 2.5 to 1 January 31 through July 30, 2003 and 3 to 1 thereafter.

At October 31, 2004, Cooper's debt was 23% of total capitalization, its ratio of EBITDA to fixed charges (as defined) was 1.8 to 1 and its ratio of debt to EBITDA was 1.24 to 1.

The \$3 million cost of acquiring the new credit facility is carried in other assets and amortized to interest expense over its life.

At October 31, 2004, we had \$143.1 million available under the KeyBank line of credit:

(In millions)	
Amount of line	\$ 196.9
Outstanding loans	(53.8)*
Available	\$ 143.1

* Includes \$3.9 million in letters of credit backing other debt.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Convertible Senior Debentures

In the third quarter of 2003, we issued \$115 million of 2.625% convertible senior debentures (Debentures) due on July 1, 2023, in a private placement pursuant to Rule 144A and Regulation S of the Securities Act of 1933. The Debentures are convertible at the holder's option under certain circumstances into 22.5201 shares of our common stock per \$1,000 principal amount of Debentures, approximately \$44.40 per share, or approximately 2.6 million shares. When converted, we have the right to deliver, in lieu of shares of our common stock, cash or a combination of cash and shares of common stock. The Debentures rank equally in right of payment with all of our other unsecured and unsubordinated indebtedness and are effectively subordinated to the indebtedness and other liabilities of our subsidiaries, including trade creditors. We may redeem the Debentures (in whole or in part) for cash on or after July 1, 2008, at a price equal to 100% of the principal amount. Holders may require us to repurchase the Debentures on July 1, 2008, 2013 and 2018, at a repurchase price equal to 100% of the principal amount.

The proceeds of \$112.2 million reflect the discount of \$2.8 million that we amortize over the life of the Debentures. The \$1.2 million cost of issuing the Debentures is carried in other assets and amortized to interest expense over its life.

We used the proceeds primarily to reduce amounts drawn under our revolving credit facility and to fund acquisitions, with the remaining held for general corporate purposes.

In our fourth fiscal quarter 2004, the Debentures became convertible as our share price exceeded 120% of the conversion price for 20 consecutive trading days in the 30 consecutive trading day period ending on the last trading day of the quarter ended July 31, 2004. However, prior to July 1, 2008, we may not redeem at our option, nor may a holder require us to repurchase, any outstanding debentures.

Under Emerging Issues Task Force (EITF) Issue No. 04-8, the dilutive effect of the Debentures is included in the diluted earnings per share calculation from the time of issuance of the Debentures—our fiscal third quarter 2003, in accordance with the if-converted methodology under FASB Statement No. 128.

European Overdraft Facility

On August 24, 2005, Cooper entered into a \$40 million overdraft facility, in the form of a continuing and unconditional guaranty, with Bank of America on behalf of certain of its European subsidiaries for cash management purposes. The company will pay to the Bank all forms of indebtedness in the currency in which it is denominated for those certain subsidiaries upon demand by the bank. Interest expense is calculated on all debit balances based on an applicable base rate for each country plus a fixed spread common across all subsidiaries covered under the guaranty. At October 31, 2005, \$32.2 million of the facility was utilized. The weighted average interest rate on the outstanding balances was 5.05%.

Note 7. Financial Instruments

The fair value of each of our financial instruments, including cash and cash equivalents, trade receivables, lines of credit and accounts payable, approximated its carrying value as of October 31, 2005 and 2004 because of the short maturity of these instruments and the ability to obtain financing on similar terms. We believe that there are no significant concentrations of credit risk in trade receivables.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The 2.625% convertible senior debentures are traded occasionally in public markets. The carrying value and estimated fair value of these obligations as of October 31, 2005, are \$112.5 million and \$185.4 million, respectively, and as of October 31, 2004, \$112.3 million and \$194 million, respectively. The fair value of our other long-term debt approximated the carrying value at October 31, 2005 and 2004 because we believe that we could obtain similar financing with similar terms.

Marketable securities at October 31, 2004 represented Quidel Corporation common stock available for sale at fair value. We received Quidel shares as a result of a transaction involving Litmus Concepts, Inc. in 2001 and additional shares upon release of escrow in 2002.

We have sold shares of Quidel stock from time to time and sold all remaining shares in 2005:

Sale of Quidel Shares**Years Ended October 31,**

(In thousands)	2005	2004	2003
Proceeds from sale	\$ 1,779	\$ 3,376	\$ 2,044
Carrying value	1,660	1,933	1,423
Gross realized gain in earnings	119	1,443	621
Tax	48	577	249
Reclassification adjustment*	\$ 71	\$ 866	\$ 372

* Reflected in comprehensive income

Derivative Instruments

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

Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133) all derivatives are recorded on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify, or are not effective as hedges, must be recognized currently in earnings.

Cash Flow Hedging

We designate and document foreign exchange forward contracts related to forecasted cost of sales and interest on intercompany equipment sale and leaseback transactions as cash flow hedges. We calculate

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

hedge effectiveness at a minimum each fiscal quarter. The effective portion of the change in the fair value of the derivative on a spot-to-spot basis is compared to the spot-to-spot change in the anticipated transaction with the effective portion recorded in other comprehensive income (OCI) until the hedged cash flow occurs at which time other comprehensive income is reclassified to earnings. We record any ineffectiveness, and any excluded components of the hedge in other income and expense in our Consolidated Statement of Income. In the event it becomes probable that a hedged anticipated transaction will not occur, the gains or losses on the related cash flow hedges will immediately be reclassified from OCI to other income or expense. As of October 31, 2005, all outstanding cash flow hedging derivatives had a maturity of less than 12 months. Amounts reclassified to other income over the next twelve months are not expected to be material.

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

Interest Rate Swaps

To meet certain management objectives and specific bank covenants, the Company executed five interest rate swaps on January 14, 2005, effective February 7, 2005 with maturities of 1-3 years with a combined notional value of \$500 million. The swaps were designed to fix a portion of the borrowing costs of the Company's floating rate \$750 million syndicated bank credit facility dated January 6, 2005. The fixed rates on the swaps were between 3.28% and 3.78%. The swaps were designated as SFAS No. 133 cash flow hedges of the benchmark interest rate risk associated with certain LIBOR-based interest payments on debt, and they were carefully crafted to match the critical terms of the syndicated bank credit facility. The swaps were expected to continue to be highly effective economically, but because the documentation for the swaps was incomplete at inception, the interest rate swaps did not qualify for hedge accounting. We recorded \$1.9 million of other income for the year from the mark to market of these swaps. In June 2005, we cash settled these swaps and entered into new swaps with identical notional values and maturities, and we completed appropriate hedge documentation. These new swaps are expected to be highly effective for the life of the hedges. The fixed rates on these new swaps are between 3.79% and 4.02%. As of October 31, 2005, the fair value of these new swaps was recorded as an asset. An offsetting entry is recorded in OCI in the balance sheet as of October 31, 2005 equal to the \$5.4 million fair value of these new swaps. Effectiveness testing and measurement is performed at a minimum each fiscal quarter using the hypothetical derivative method.

In April 1998, the Company entered into an interest rate swap hedging an outstanding industrial revenue bond maturing in 2012. We have not designated this swap as a hedge for accounting treatment.

Fair Value Hedging

During fiscal 2005, we began designating and documenting foreign exchange forward contracts related to firm commitments for capital expenditures as fair value hedges. In accordance with policy, these derivatives are employed to eliminate, reduce or transfer selected foreign currency risks that meet the

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

SFAS No. 133 definition of a firm commitment. The fair value hedges are evaluated for effectiveness at a minimum each fiscal quarter, and any ineffectiveness is recorded in other income and expense. The critical terms of the forward contract and the firm commitments are matched at inception and subsequent forward contract effectiveness is calculated by comparing the fair value of the forward contract to the cumulative change in value of the specified firm commitment, including time value. The derivative fair values are recognized currently in earnings and offset by the effective gains and losses on the construction in process, which are also reflected in the balance sheet and currently in earnings. The net impact of hedge ineffectiveness on fair value hedges and on cash flow hedges is recognized in other income/expense and is immaterial.

Outstanding Derivative Instruments

Our outstanding net foreign exchange forward contracts and interest rate swap agreements as of October 31, 2005, are presented in the table below. Weighted average forward rates are quoted using market conventions.

Foreign Exchange Hedge Instruments

(Currency in thousands)	Net Notional Value	Weighted Average Rate	Fair Value
Cash flow FX hedges:			
EURO sold	2,293	1.2241	45
Fair value FX hedges:			
EURO purchased	2,531	1.3012	(235)
Mark-to-market FX hedges:			
EURO purchased	908	1.2561	(51)
EURO sold	19,754	1.2277	458
Canadian Dollar purchased	57	0.8475	
Swedish Krona purchased	849	0.1315	(5)

	Summary Notional Value	Fixed Rate	Fair Value
Interest rate swap agreements			
Cash flow interest rate hedges:			
Agreements expiring February 7, 2006	\$ 100,000	3.7850	\$ 126
Agreements expiring February 7, 2007	\$ 150,000	3.9050	\$ 1,396
Agreements expiring February 7, 2008	\$ 250,000	3.9980	\$ 3,841
FX hedges and interest rate swap agreements outstanding at October 31, 2004 were not significant.			
Mark-to-market interest rate hedges:			
Agreements expiring January 1, 2012			
As of October 31, 2005	\$ 1,080	4.8800	\$ (31)
As of October 31, 2004	\$ 1,400	4.880	\$ (88)

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Note 8. Stockholders' Equity**

Following is a summary, excluding comprehensive income, of items included in stockholders' equity:

(In thousands)	Common Shares		Common	Paid-In	Retained	Treasury
	Outstanding	Treasury	Stock	Capital	Earnings	Stock
Balance at October 31, 2002	30,867	658	\$ 3,153	\$ 285,619	\$ 37,236	\$ (10,092)
Exercise of stock options	1,210	(56)	115	23,016		855
Restricted stock/stock option amortization and share issuance	6	(6)		81		92
Tax benefit from exercise of stock options				1,035		
Dividends on common stock				(85)	(1,867)	
Net income					68,770	
Balance at October 31, 2003	32,083	596	3,268	309,666	104,139	(9,145)
Exercise of stock options	662	(5)	66	13,624		76
Restricted stock/stock option amortization and share issuance	6	(6)		164		93
Tax benefit from exercise of stock options				4,357		
Dividends on common stock					(1,943)	
Net income					92,825	
Balance at October 31, 2004	32,751	585	3,334	327,811	195,021	(8,976)
Issuance of common stock related to Ocular Sciences, Inc. acquisition	10,671		1,067	621,845		
Exercise of stock options	1,001	(112)	89	23,347		1,727
Restricted stock amortization and share issuance	8	(8)		433		116
Tax benefit from exercise of stock options				3,881		
Dividends on common stock					(2,306)	
Net income					91,722	
Balance at October 31, 2005	44,431	465	\$ 4,490	\$ 977,317	\$ 284,437	\$ (7,133)

Cash Dividends

In November 2002, Cooper's Board of Directors increased the annual dividend rate from 5 cents per share to 6 cents per share payable semiannually. On July 5, 2005, we paid a semi-annual dividend of 3 cents per share to stockholders of record on June 14, 2005. On January 5, 2006, we paid a semi-annual dividend of 3 cents per share to stockholders of record on December 16, 2005.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Treasury Stock**

(In thousands)	Shares	Amount
Balance at October 31, 2002	658	\$ 10,092
Reissued in fiscal 2003 ⁽³⁾	(62)	(947)
Reissued in fiscal 2004 ⁽²⁾	(11)	(169)
Reissued in fiscal 2005 ⁽¹⁾	(120)	(1,843)
	465	\$ 7,133

(1) Issued 120,000 shares of treasury stock upon the exercise of stock options and issuance of restricted shares. Treasury stock was credited for \$1.8 million for the average cost of the treasury stock, and \$433,000 was charged to additional paid in capital.

(2) Issued 11,000 shares of treasury stock upon the exercise of stock options and issuance of restricted shares. Treasury stock was credited for \$169,000 for the average cost of the treasury stock, and \$164,000 was charged to additional paid in capital.

(3) Issued 61,750 shares of treasury stock upon the exercise of stock options and issuance of restricted shares. Treasury stock was credited for \$947,000 for the average cost of the treasury stock, and \$81,000 was charged to additional paid in capital.

Stockholders Rights Plan

Under our stockholders rights plan, each outstanding share of our common stock carries one-half of one preferred share purchase right (a Right). The Rights will become exercisable only under certain circumstances involving acquisition of beneficial ownership of 20% or more of our common stock by a person or group (an Acquiring Person) without the prior consent of Cooper's Board of Directors. If a person or group becomes an Acquiring Person, each Right would then entitle the holder (other than an Acquiring Person) to purchase, for the then purchase price of the Right (currently \$145, subject to adjustment), shares of Cooper's common stock, or shares of common stock of any person into which we are thereafter merged or to which 50% or more of our assets or earning power is sold, with a market value of twice the purchase price. The Rights will expire in October 2007 unless earlier exercised or redeemed. The Board of Directors may redeem the Rights for \$.01 per Right prior to any person or group becoming an Acquiring Person.

Note 9. Employee Stock Plans

At October 31, 2005, Cooper had two stock-based compensation plans:

Amended and Restated 2001 Long-Term Incentive Plan (2001 LTIP)

The 2001 LTIP is designed to increase Cooper's stockholder value by attracting, retaining and motivating key employees and consultants who directly influence our profitability. Stockholders initially approved the 2001 LTIP in March 2001. Stockholders approved an amendment and restatement of the 2001 LTIP in March 2003 and approved a subsequent amendment in March 2004.

The 2001 LTIP authorizes either Cooper's Board of Directors or a designated committee thereof composed of two or more Non-Employee Directors to grant to eligible individuals during the period

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ending December 31, 2006, stock options for up to 4,950,000 shares of common stock, subject to adjustment for future stock splits, stock dividends, expirations, forfeitures and similar events. Options expire 10 years after the grant date. Options generally become exercisable based on both our common stock achieving certain price targets and within specified time periods, or five years after the grant date. As of October 31, 2005, 689,000 shares remained available under the 2001 LTIP for future grants.

1996 Long-Term Incentive Plan for Non-Employee Directors (1996 Directors Plan)

The 1996 Directors Plan provides for annual grants of stock options and restricted stock to Non-Employee Directors on November 1 and November 15, respectively, of each fiscal year. Specifically, each Non-Employee Director may be awarded the right to purchase 1,000 restricted shares of the Company's common stock for \$0.10 per share. The restrictions on the restricted stock will lapse on the earlier of the date when the stock reaches certain target values or the fifth anniversary of the date of grant. Options expire 10 years after the grant date. Each Non-Employee Director may also be awarded options to purchase common stock. On October 24, 2001, the term of the plan was extended by four years. On October 29, 2003, the NEDRSP was amended to reduce the number of stock options granted annually to Non-Employee Directors and the Company's Lead Director to 17,500 and 18,900, respectively.

Each Non-Employee Director was granted an option to purchase 17,500 shares of Cooper's common stock in fiscal 2005 and 2004 (or, in the case of the Vice Chairman and Lead Director of the Board who was a Non-Employee Director, 18,900 shares in fiscal 2005 and 2004). Due to the Ocular acquisition (see Note 2. Acquisitions), two new non-employee directors joined the Board of Directors in fiscal 2005. The two new non-employee directors were each granted a pro-rata option to purchase 14,583 shares of Cooper common stock. 1,320,000 shares of Cooper's common stock had been reserved for this, of which 465,035 shares are held in treasury. As of October 31, 2005, 178,196 shares remained available under the 1996 NEDRSP for future grants. Restricted shares of 7,668, 6,000 and 6,000 were granted under the 1996 NEDRSP in fiscal 2005, 2004 and 2003, respectively. No restricted shares issued in connection with this plan had any restrictions remaining in effect as of October 31, 2005. The weighted-average fair value of restricted shares granted in fiscal 2005, 2004 and 2003 was \$71.87 per share, \$71.57 per share and \$28.85 per share, respectively on grant-date.

Common stock activity under these plans was:

Years Ended October 31,	2005		2004		2003	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	3,621,778	\$ 36.81	3,528,194	\$ 27.52	3,378,776	\$ 21.46
Granted	1,368,066	68.79	777,900	65.09	1,370,500	35.64
Exercised	(1,001,235)	25.17	(662,316)	20.79	(1,210,082)	19.81
Forfeited	(21,000)	58.15	(22,000)	29.00	(11,000)	23.54
Outstanding at end of year	3,967,609	\$ 50.66	3,621,778	\$ 36.81	3,528,194	\$ 27.52
Options exercisable at year end	1,844,135	\$ 37.44	1,779,556	\$ 26.72	1,935,807	\$ 22.18
Weighted average fair value per option granted during the year		\$ 17.88		\$ 15.93		\$ 9.61

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The options outstanding at October 31, 2005, for the stock option plans are:

Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 10/31/05	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding at 10/31/05	Weighted Average Exercise Price
From \$15.35 to \$19.86	53,500	4.34	\$ 17.89	53,500	\$ 17.89
From \$21.60 to \$26.75	910,852	6.07	25.27	910,852	25.27
From \$29.50 to \$35.69	306,666	6.71	32.72	179,442	31.38
From \$41.44 to \$62.60	694,275	8.01	42.20	344,275	42.29
From \$67.65 to \$80.51	2,002,316	9.50	68.78	356,066	69.89
From \$15.35 to \$80.51	3,967,609	8.17	\$ 50.66	1,844,135	\$ 37.44

The excess of market value over \$.10 per share of restricted shares on the respective dates of grant is initially recorded as unearned compensation and charged to operations as earned. Restricted shares and other stock compensation charged against operating income for the years ended October 31, 2005, 2004 and 2003 was \$550,000, \$263,000 and \$257,000, respectively.

Note 10. Employee Benefits**Cooper's Retirement Income Plan**

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 participation in equity and fixed income funds. The pension plan's intangible asset of \$462,000 at October 31, 2005, is reported in other intangible assets.

The following table sets forth the Plan's benefit obligations, fair value of the Plan assets, the funded status of the Plan at October 31 and net periodic pension costs for the three-year period ended October 31, 2005.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Retirement Income Plan****Years Ended October 31,**

(In thousands)	2005	2004	2003
Change in benefit obligation			
Benefit obligation, beginning of year	\$ 23,397	\$ 19,038	\$ 15,470
Service cost	2,069	1,605	1,036
Interest cost	1,418	1,263	1,117
Benefits paid	(653)	(642)	(577)
Actuarial loss	4,233	2,133	1,992
Benefit obligation, end of year	\$ 30,464	\$ 23,397	\$ 19,038
Change in plan assets			
Fair value of plan assets, beginning of year	\$ 15,178	\$ 13,005	\$ 9,893
Actual return on plan assets	2,029	1,315	1,317
Employer contributions	2,450	1,500	2,372
Benefits paid	(653)	(642)	(577)
Fair value of plan assets, end of year	\$ 19,004	\$ 15,178	\$ 13,005
Reconciliation of funded status			
Funded status	\$ (11,460)	\$ (8,219)	\$ (6,033)
Unrecognized transition obligation	183	208	234
Unrecognized prior service cost	279	309	339
Unrecognized actual loss	9,663	6,443	4,603
Net amount recognized at August 31	(1,335)	(1,259)	(857)
Contributions made between August 31 and October 31			
Net amount recognized at year end	\$ (1,335)	\$ (1,259)	\$ (857)

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Retirement Income Plan**

Years Ended October 31,

(In thousands)	2005	2004	2003
Amounts recognized in the statement of financial position consist of:			
Prepaid benefit cost	\$	\$	\$
Accrued benefit liability	(6,720)	(4,920)	(3,461)
Intangible asset	462	517	573
Accumulated other comprehensive income	4,923	3,144	2,031
Net amount recognized at year end	\$ (1,335)	\$ (1,259)	\$ (857)
Other comprehensive income attributable to change in additional minimum liability recognition	\$ 1,779	\$ 1,113	\$ 950
Additional year-end information for pension plans with accumulated benefit obligations in excess of plan assets			
Projected benefit obligation	\$ 30,464	\$ 23,397	\$ 19,038
Accumulated benefit obligation	25,681	20,098	16,466
Fair value of plan assets	18,961	15,178	13,005
Minimum liability	6,720	4,920	3,461
Additional minimum liability	5,385	3,661	2,604
Components of net periodic pension cost and total pension expense			
Service cost	\$ 2,069	\$ 1,605	\$ 1,036
Interest cost	1,418	1,263	1,117
Expected return on plan assets	(1,335)	(1,213)	(902)
Amortization of transitional obligation	26	26	25
Amortization of prior service cost	30	30	30
Recognized actuarial loss	318	191	134
Net periodic pension cost	2,526	1,902	1,440
Curtailments			
Total pension expense	\$ 2,526	\$ 1,902	\$ 1,440
Weighted-average assumptions used in computing the net periodic pension cost and projected benefit obligation at year end:			
Discount rate for determining net periodic pension cost	6.00%	6.50%	7.25%
Discount rate for determining benefit obligations at year end	5.25%	6.00%	6.50%
Rate of compensation increase for determining expense	4.00%	4.00%	4.00%
Rate of compensation increase for determining benefit obligations at year end	4.00%	4.00%	4.00%
Expected rate of return on plan assets for determining net periodic pension cost	9.00%	9.00%	9.00%
Measurement date for determining assets and benefit obligations at year end	8/31/2005	8/31/2004	8/31/2003

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The expected rate of return on plan assets was determined based on a review of historical returns, both for this plan and for medium- to large-sized defined benefit pension funds with similar asset allocations. This review generated separate expected returns for each asset class listed below. These expected future returns were then blended based on this Plan's target asset allocation.

Plan Assets

Weighted-average asset allocations at year end, by asset category are as follows:

Years Ended October 31, Asset Category	2005	2004	2003
Cash and cash equivalents	14.0%	9.9%	14.9%
Corporate common stock	32.8%	33.4%	29.3%
Equity mutual funds	35.4%	36.4%	37.5%
Bond mutual funds	17.8%	20.3%	18.3%
Total	100.0%	100.0%	100.0%

The plan invests in a diversified portfolio of assets intended to minimize risk of poor returns while maximizing expected portfolio returns. To achieve the long-term rate of return, plan assets will be invested in a mixture of instruments, including but not limited to corporate common stock (may include Cooper stock), investment grade bond funds, cash, small/large cap equity funds and international equity funds. The allocation of assets will be determined by the Investment Manager, and will typically include 50% to 70% equities with the remainder invested in fixed income and cash. Presently, this diversified portfolio is expected to return roughly 9.00% on a long-term basis.

Cash Flows**Contributions**

The Company contributed \$2.5 million to its pension plan during the fiscal year. Total contributions during the last two fiscal years were about \$4 million. The Company closely monitors the funded status of the Plan with respect to legislative and accounting rules. There is no required contribution during the 2005 - 2006 fiscal year.

Estimated Future Benefit Payments

Years	
(In thousands)	
2005 - 2006	\$ 775
2006 - 2007	\$ 804
2007 - 2008	\$ 870
2008 - 2009	\$ 967
2009 - 2010	\$ 1,078
Years 2010 - 2011 to 2014 - 2015	\$ 7,822

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Cooper's 401(k) Savings Plan**

Cooper's 401(k) Savings Plan provides for the deferral of compensation as described in the Internal Revenue Code and is available to substantially all full-time United States employees of Cooper. Employees who participate in the 401(k) Plan may elect to have from 1% to 50% of their pre-tax salary or wages deferred and contributed to the trust established under the plan. Cooper's contribution on account of participating employees, net of forfeiture credits, was \$1.9 million, \$1.1 million and \$784,000 for the years ended October 31, 2005, 2004 and 2003, respectively.

Note 11. Commitments and Contingencies**Lease Commitments**

Total minimum annual rental obligations under noncancelable operating leases (substantially all real property or equipment) in force at October 31, 2005, are payable as follows:

(In thousands)

2006	\$ 18,247
2007	16,179
2008	12,366
2009	10,140
2010	9,781
2011 and thereafter	39,691
	\$ 106,404

Aggregate rental expense for both cancelable and noncancelable contracts amounted to \$15.2 million, \$8.3 million and \$8.1 million in 2005, 2004 and 2003, respectively.

Legal Proceedings

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

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

The amount of taxes paid for these years was supported by pricing studies performed by an international firm of tax advisors. The resulting intercompany transactions and tax payments reflected

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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 12. Business Segment Information

Cooper is organized by product line for management reporting with operating income, as presented in our financial reports, 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 consolidated results. Our two business segments—CooperVision and CooperSurgical—comprise Cooper's operations.

Total net sales include sales to customers as reported in our consolidated statements of income and sales between geographic areas that are priced at terms that allow for a reasonable profit for the seller. Operating income (loss) is total net sales less cost of sales, research and development expenses, selling, general and administrative expenses, restructuring costs and amortization of intangible assets. Corporate operating loss is principally corporate headquarters expense. Investment income, net; settlement of disputes, net; other income (expense), net and interest expense are not allocated to individual segments. Neither of our business segments relies on any one major customer.

Identifiable assets are those used in continuing operations except cash and cash equivalents, which we include as corporate assets.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Information by business segment for each of the years in the three-year period ended October 31, 2005 follows:

(In thousands)	CVI	CSI	Corporate & Eliminations	Consolidated
2005				
Net sales from non-affiliates	\$ 697,934	\$ 108,683	\$	\$ 806,617
Operating income (loss)	\$ 135,542	\$ 17,426	\$ (17,134)	135,834
Investment income, net				1,002
Other expense, net				(256)
Interest expense				(28,123)
Income before income taxes				\$ 108,457
Identifiable assets	\$ 1,884,955	\$ 185,497	\$ 109,378	\$ 2,179,830
Depreciation expense	\$ 35,345	\$ 1,526	\$ 63	\$ 36,934
Amortization expense	\$ 10,499	\$ 1,205	\$	\$ 11,704
Capital expenditures	\$ 115,219	\$ 1,766	\$ 108	\$ 117,093
2004				
Net sales from non-affiliates	\$ 388,660	\$ 101,516	\$	\$ 490,176
Operating income (loss)	\$ 106,639	\$ 20,866	\$ (10,754)	116,751
Investment income, net				351
Settlement of dispute				(377)
Other income, net				1,768
Interest expense				(6,004)
Income before income taxes				\$ 112,489
Identifiable assets	\$ 538,246	\$ 186,854	\$ 86,461	\$ 811,561
Depreciation expense	\$ 11,868	\$ 1,669	\$ 62	\$ 13,599
Amortization expense	\$ 1,345	\$ 707	\$	\$ 2,052
Capital expenditures	\$ 39,139	\$ 1,327	\$ 39	\$ 40,505
2003				
Net sales from non-affiliates	\$ 329,560	\$ 82,230	\$	\$ 411,790

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Operating income (loss)	\$	88,863	\$	18,184	\$	(11,805)	\$	95,242
Investment income, net								246
Settlement of dispute								(500)
Other income, net								2,463
Interest expense								(6,964)
Income before income taxes							\$	90,487
Identifiable assets	\$	462,581	\$	154,199	\$	88,784	\$	705,564
Depreciation expense	\$	9,339	\$	1,594	\$	57	\$	10,990
Amortization expense	\$	971	\$	564	\$		\$	1,535
Capital expenditures	\$	32,742	\$	1,072	\$	58	\$	33,872

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Information by geographical area by country of domicile for each of the years in the three-year period ended October 31, 2005, follows:

(In thousands)	United States	Europe	Rest of World, Other Eliminations & Corporate	Consolidated
2005				
Sales to unaffiliated customers	\$ 411,447	\$ 247,674	\$ 147,496	\$ 806,617
Sales between geographic areas	152,037	161,699	(313,736)	
Net sales	\$ 563,484	\$ 409,373	\$ (166,240)	\$ 806,617
Operating income	\$ 30,693	\$ 8,729	\$ 96,412	\$ 135,834
Identifiable assets	\$ 1,103,028	\$ 459,521	\$ 617,281	\$ 2,179,830
2004				
Sales to unaffiliated customers	\$ 284,341	\$ 147,285	\$ 58,550	\$ 490,176
Sales between geographic areas	1,112	99,140	(100,252)	
Net sales	\$ 285,453	\$ 246,425	\$ (41,702)	\$ 490,176
Operating income	\$ 55,222	\$ 10,377	\$ 51,152	\$ 116,751
Identifiable assets	\$ 349,632	\$ 317,788	\$ 144,141	\$ 811,561
2003				
Sales to unaffiliated customers	\$ 246,906	\$ 121,011	\$ 43,873	\$ 411,790
Sales between geographic areas	1,303	87,004	(88,307)	
Net sales	\$ 248,209	\$ 208,015	\$ (44,434)	\$ 411,790
Operating income	\$ 39,440	\$ 7,767	\$ 48,035	\$ 95,242
Identifiable assets	\$ 299,682	\$ 272,107	\$ 133,775	\$ 705,564

Note 13. Subsequent Events (Unaudited)**Acquisition of NeoSurg Technologies, Inc. and Inlet Medical, Inc.**

In November 2005, CSI acquired NeoSurg Technologies, Inc. (NeoSurg), a manufacturer of reusable and disposable trocar access systems used in laparoscopic surgery and Inlet Medical, Inc. (Inlet), a manufacturer of trocar closure system and pelvic floor reconstruction procedure kits for about \$50 million in cash.

NeoSurg has developed a patented combination reusable and disposable trocar access system to compete in the market for laparoscopic surgical devices. Inlet designs, develops and markets medical devices and has established a seven-year track record of marketing products for

laparoscopic wound closure and other minimally interventional laparoscopic products.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Amended and Restated Credit Agreement**

On December 12, 2005, Cooper amended and restated its existing \$750 million syndicated bank credit facility (see Note 6. Debt). The amendment extended maturities and provides the Company with additional borrowing flexibility and lower overall pricing. The amendment refinanced the \$465 million outstanding of Term A and Term B loans under the prior facility and is comprised of a revolving credit facility, which was increased from \$275 million to \$500 million, and a \$250 million term loan. In addition, the Company has the ability from time to time to increase the size of the revolving credit facility by up to an additional \$250 million. We expect to write off about \$4 million of debt issuance costs as a result of amending the original facility. KeyBank led the amendment process, which resulted in substantially all original banks retaining or increasing their participation in the agreement. The revolving facility and the term loan mature on December 12, 2010. Interest rates are based on the KeyBank's London Interbank Offered Rate (LIBOR) plus additional basis points determined by certain ratios of debt to pro forma earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the credit agreement. These range from 62.5 to 150 basis points for the revolver and Term loan. Terms include a first security interest in all Cooper domestic assets. The credit agreement:

Requires that the ratio of EBITDA to fixed charges (as defined) be at least 1.1 to 1 through October 30, 2009 and 1.2 to 1 thereafter.

Requires that the ratio of total debt to EBITDA (as defined, Leverage Ratio) be no higher than 3.75 to 1 December 12, 2005 through October 30, 2006, 3.0 to 1 October 31, 2006 through October 30, 2007, 2.5 to 1 October 31, 2007 through October 30, 2009, and 2.0 to 1 thereafter.

Our contractual obligations and commercial commitments, including the amended and restated credit facility are:

Payments Due by Period

(In millions)	2006	2007 & 2008	2009 & 2010	2011 & Beyond
Long-term debt	\$ 0.3	\$ 88.0	\$ 141.5	\$ 498.8

Note 14. Selected Quarterly Financial Data (Unaudited)

The Company has 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 had 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 \$0.7 million, \$2.2 million, and \$2.2 million in the first, second and third quarters, respectively. In addition, an adjustment to reduce cost of sales was recorded for \$2.2 million related to certain inventory handling costs which should have been capitalized in the third quarter. These amounts have been reflected as cost of sales in the fourth quarter. Also, the Company corrected several items, which were immaterial individually and in the aggregate, which impacted net income in the amounts of \$223,000, \$10,000, and \$178,000 and \$124,000 in the first, second, third and fourth quarters, respectively.

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

(In thousands, except per share amounts)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter
	Restated	Reported	Restated	Reported	Restated	Reported	
2005							
Net sales	\$ 147,550	\$ 147,890	\$ 215,494	\$ 215,774	\$ 222,932	\$ 222,142	\$ 220,641
Cost of sales	55,432	55,568	84,785	84,967	84,103	85,523	85,466
Gross profit	92,118	92,322	130,709	130,807	138,829	136,619	135,175
Selling, general and administrative expense	60,395	60,189	79,474	79,317	80,755	80,095	77,330
Research and development expense	2,830	2,830	5,356	5,356	7,124	7,124	27,569
Restructuring costs	666	723	1,741	1,937	1,688	2,587	4,366
Amortization of intangibles	1,610	888	3,391	1,225	3,328	1,161	3,375
Operating income	26,617	27,692	40,747	42,972	45,934	45,652	22,535
Interest expense	3,648	3,719	8,015	8,086	8,105	8,176	8,356
Other income/(loss), net	(614)	(614)	2,469	2,469	(792)	(792)	(317)
Income before income taxes	22,355	23,359	35,201	37,355	37,037	36,684	13,862
Provision for income taxes	4,646	4,873	7,374	7,845	(582)	(672)	5,297
Net income	17,709	18,486	27,827	29,510	37,619	37,356	8,565
Add interest charge applicable to convertible debt, net of tax	524	524	524	524	524	524	524
Income for calculating diluted earnings per share	\$ 18,233	\$ 19,010	\$ 28,351	\$ 30,034	\$ 38,143	\$ 37,880	\$ 9,089
Diluted earnings per share	\$ 0.46	\$ 0.48	\$ 0.59	\$ 0.62	\$ 0.80	\$ 0.79	\$ 0.19
Diluted shares	39,479	39,479	48,104	48,104	47,854	47,854	48,063

Table of Contents**THE COOPER COMPANIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004				
Net sales	\$ 109,734	\$ 120,552	\$ 129,079	\$ 130,811
Gross profit	\$ 69,956	\$ 78,385	\$ 83,134	\$ 84,355
Income before income taxes	\$ 23,838	\$ 27,517	\$ 29,755	\$ 31,379
Provision for income taxes	5,483	5,818	5,707	2,656
Net income	18,355	21,699	24,048	28,723
Add interest charge applicable to convertible debt, net of tax	523	524	524	524
Income for calculating diluted earnings per share	\$ 18,878	\$ 22,223	\$ 24,572	\$ 29,247
Diluted earnings per share	\$ 0.52	\$ 0.61	\$ 0.67	\$ 0.79
Diluted shares excluding shares applicable to convertible debt	33,543	33,931	34,128	34,342
Shares applicable to convertible debt	2,590	2,590	2,590	2,590
Number of shares used to compute diluted earnings per share	36,133	36,521	36,718	36,932

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

3. Exhibits

- 23 - Consent and Report of Independent Registered Public Accounting Firm on Schedule
- 31.3 - Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 31.4 - Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 32.3 - Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
- 32.4 - Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized, on June 23, 2006.

THE COOPER COMPANIES, INC.

By: */s/ STEVEN M. NEIL*
Steven M. Neil
Vice President and Chief Financial Officer