

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

FORM 10-Q

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

For Quarterly Period Ended April 30, 2006

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-8597

**The Cooper Companies, Inc.**  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

6140 Stoneridge Mall Road, Suite 590, Pleasanton, CA  
(Address of principal executive offices)

94588  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

Common Stock, \$.10 par value  
Class

44,952,083 Shares  
Outstanding at May 31, 2006

---

[Table of Contents](#)

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

INDEX

	<u>Page No.</u>	
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	<a href="#">Consolidated Statements of Income – Three and Six Months Ended April 30, 2006 and 2005</a>	3
	<a href="#">Consolidated Balance Sheets – April 30, 2006 and October 31, 2005</a>	4
	<a href="#">Consolidated Condensed Statements of Cash Flows - Six Months Ended April 30, 2006 and 2005</a>	5
	<a href="#">Consolidated Statements of Comprehensive Income - Three and Six Months Ended April 30, 2006 and 2005</a>	6
	<a href="#">Notes to Consolidated Condensed Financial Statements</a>	7
Item 2.	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	27
Item 3.	<a href="#">Quantitative and Qualitative Disclosure About Market Risk</a>	44
Item 4.	<a href="#">Controls and Procedures</a>	44
PART II.	OTHER INFORMATION	
Item 1.	<a href="#">Legal Proceedings</a>	45
Item 1A.	<a href="#">Risk Factors</a>	47
Item 4.	<a href="#">Submission of Matters to a Vote of Security Holders</a>	51
Item 6.	<a href="#">Exhibits</a>	52
	<a href="#">Signature</a>	53
	<a href="#">Index of Exhibits</a>	54

PART I. FINANCIAL INFORMATION  
Item 1. Financial Statements  
THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Consolidated Statements of Income  
(In thousands, except for earnings per share)  
(Unaudited)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>April 30,</u>		<u>April 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net sales	\$ 211,397	\$ 215,494	\$ 417,136	\$ 363,044
Cost of sales	80,034	84,785	156,612	140,217
Gross profit	131,363	130,709	260,524	222,827
Selling, general and administrative expense	88,600	79,474	173,046	139,869
Research and development expense	13,914	5,356	19,846	8,186
Restructuring costs	866	1,741	2,206	2,407
Amortization of intangibles	3,503	3,391	7,232	5,001
Operating income	24,480	40,747	58,194	67,364
Interest expense	7,787	8,015	16,215	11,663
Other (expense) income, net	(1,100)	2,469	(6,263)	1,855
Income before income taxes	15,593	35,201	35,716	57,556
Provision for income taxes	1,892	7,374	4,061	12,020
Net income	13,701	27,827	31,655	45,536
Add interest charge applicable to convertible debt, net of tax	523	524	1,045	1,048
Income for calculating diluted earnings per share	<u>\$ 14,224</u>	<u>\$ 28,351</u>	<u>\$ 32,700</u>	<u>\$ 46,584</u>
Earnings per share:				
Basic	<u>\$ 0.31</u>	<u>\$ 0.63</u>	<u>\$ 0.71</u>	<u>\$ 1.14</u>
Diluted	<u>\$ 0.30</u>	<u>\$ 0.59</u>	<u>\$ 0.69</u>	<u>\$ 1.06</u>
Number of shares used to compute earnings per share:				
Basic	<u>44,520</u>	<u>43,980</u>	<u>44,508</u>	<u>39,801</u>
Diluted	<u>47,577</u>	<u>48,104</u>	<u>47,606</u>	<u>44,001</u>

See accompanying notes.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets  
(In thousands)  
(Unaudited)

	<u>April 30, 2006</u>	<u>October 31, 2005</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,555	\$ 30,826
Trade accounts receivable, net of allowance for doubtful accounts of \$6,446 at April 30, 2006 and \$7,232 at October 31, 2005	148,230	152,610
Inventories, net	214,666	185,693
Deferred tax assets	17,878	23,449
Prepaid expense and other current assets	43,172	51,136
Total current assets	<u>440,501</u>	<u>443,714</u>
Property, plant and equipment, at cost	567,269	477,244
Less: accumulated depreciation and amortization	119,838	97,459
	<u>447,431</u>	<u>379,785</u>
Goodwill	1,209,233	1,169,049
Other intangibles, net	153,662	151,413
Deferred tax assets	22,882	19,716
Other assets	17,116	16,153
	<u>\$2,290,825</u>	<u>\$2,179,830</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 58,620	\$ 72,260
Accounts payable	46,007	36,042
Employee compensation and benefits	30,883	30,896
Accrued acquisition costs	34,696	41,110
Accrued income taxes	26,797	26,454
Other accrued liabilities	46,807	50,860
Total current liabilities	<u>243,810</u>	<u>257,622</u>
Long-term debt	698,187	632,652
Deferred tax liability	7,933	9,118
Accrued pension liability and other	10,569	7,213
Total liabilities	<u>960,499</u>	<u>906,605</u>
Commitments and Contingencies (see Note 12)		
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 44,951 at April 30, 2006 and 44,896 at October 31, 2005	4,495	4,490
Additional paid-in capital	990,248	977,317
Accumulated other comprehensive income and other	27,284	14,114
Retained earnings	314,757	284,437
Treasury stock at cost: 421 shares at April 30, 2006 and 465 shares at October 31, 2005	(6,458)	(7,133)
Stockholders' equity	<u>1,330,326</u>	<u>1,273,225</u>
	<u>\$2,290,825</u>	<u>\$2,179,830</u>

See accompanying notes.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Consolidated Condensed Statements of Cash Flows  
(In thousands)  
(Unaudited)

	Six Months Ended	
	April 30,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 31,655	\$ 45,536
Depreciation and amortization	29,273	21,060
Decrease in operating capital	(15,755)	(1,653)
Other non-cash items	33,279	13,740
Net cash provided from operating activities	<u>78,452</u>	<u>78,683</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(85,567)	(38,820)
Acquisitions of businesses, net of cash acquired	(61,235)	(622,981)
Sale of marketable securities and other	—	1,779
Net cash used by investing activities	<u>(146,802)</u>	<u>(660,022)</u>
Cash flows from financing activities:		
Net proceeds (repayments) of short-term debt	11,772	(400)
Repayments of long-term debt	(622,700)	(150,234)
Proceeds from long-term debt	662,750	702,000
Debt acquisition costs	(625)	(7,697)
Dividends on common stock	(1,335)	(983)
Excess tax benefit from share-based compensation arrangements	1,510	—
Proceeds from exercise of stock options	2,500	16,314
Net cash provided by financing activities	<u>53,872</u>	<u>559,000</u>
Effect of exchange rate changes on cash and cash equivalents	207	90
Net decrease in cash and cash equivalents	(14,271)	(22,249)
Cash and cash equivalents - beginning of period	30,826	39,368
Cash and cash equivalents - end of period	<u>\$ 16,555</u>	<u>\$ 17,119</u>

See accompanying notes.

[Table of Contents](#)

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Income  
(In thousands)  
(Unaudited)

	<u>Three Months Ended</u> <u>April 30,</u>		<u>Six Months Ended</u> <u>April 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net income	\$13,701	\$27,827	\$31,655	\$45,536
Other comprehensive income:				
Foreign currency translation adjustment	9,472	(561)	12,353	4,931
Change in value of derivative instruments, net of tax	1,113	(393)	1,101	(198)
Minimum pension liability adjustment, net of tax	—	—	197	—
Unrealized gain on marketable securities, net of tax:				
Gain arising during the period	—	—	—	81
Reclassification adjustment	—	—	—	(71)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>10</u>
Other comprehensive income (loss)	10,585	(954)	13,651	4,743
Comprehensive income	<u>\$24,286</u>	<u>\$26,873</u>	<u>\$45,306</u>	<u>\$50,279</u>

See accompanying notes.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements  
(Unaudited)

Note 1. General

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

- CooperVision (CVI) markets, develops and manufactures a broad range of contact lenses for the worldwide vision care market. Its leading products are disposable and planned replacement lenses.
- CooperSurgical (CSI) markets, develops and manufactures medical devices, diagnostic products and surgical instruments and accessories used primarily by gynecologists and obstetricians.

During interim periods, we follow the accounting policies described in our Form 10-K for the fiscal year ended October 31, 2005. Please refer to this when reviewing this Form 10-Q. Certain prior period amounts have been reclassified to conform to the current period's presentation. Readers should not assume that the results reported here either indicate or guarantee future performance.

The unaudited consolidated condensed financial statements presented in this report contain all adjustments necessary to present fairly Cooper's consolidated financial position at April 30, 2006 and October 31, 2005, the consolidated results of its operations for the three and six months ended April 30, 2006 and 2005 and its cash flows for the six months ended April 30, 2006 and 2005. Most of these adjustments are normal and recurring. However, certain adjustments associated with recent acquisitions including the acquisition of Ocular Sciences, Inc. (Ocular) and the related financial arrangements are of a nonrecurring nature.

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

**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

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

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.
- 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.



THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

- Valuation of goodwill – We account for goodwill and evaluate our goodwill balances and test them for impairment in accordance with the provisions of FASB Statement No. 142, *Goodwill and Other Intangible Assets*. We no longer amortize goodwill. We test goodwill for impairment annually during the third fiscal quarter and when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. We performed an impairment test in our third fiscal quarter 2005, 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 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.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

**New Accounting Pronouncement**

Effective November 1, 2005, the Company began recording compensation expense associated with stock options and other forms of equity compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), as interpreted by SEC Staff Accounting Bulletin No. 107. Prior to November 1, 2005, the Company accounted for stock options according to the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations, and, therefore, no related compensation expense was recorded for awards granted with no intrinsic value. The Company adopted the modified prospective transition method provided for under SFAS 123R and, consequently, has not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with stock options recognized in the first six months of fiscal 2006 includes: 1) quarterly amortization related to the remaining unvested portion of all stock option awards granted prior to November 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, *Accounting for Stock-Based Compensation*; and 2) quarterly amortization related to all stock option awards granted on or subsequent to November 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

As a result of the adoption of SFAS 123R, the Company's financial results were lower than under the Company's previous accounting method for share-based compensation, by the following amounts:

	<u>Three Months Ended</u> <u>April 30, 2006</u>	(In millions)	<u>Six Months Ended</u> <u>April 30, 2006</u>
Income before income taxes	\$ 3.3		\$ 8.2
Net income	\$ 2.6		\$ 6.1

Prior to the adoption of SFAS 123R, the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Condensed Consolidated Statement of Cash Flows. SFAS 123R requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised (excess tax benefits) be classified as financing cash flows. The Company has sufficient net operating loss carryforwards to generally eliminate cash payments for income taxes. The Company recognized \$1.5 million of excess tax benefits as financing cash flows.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

For stock options granted prior to the adoption of SFAS 123R, if compensation expense for the Company's various stock option plans had been determined based upon estimated fair values at the grant dates in accordance with SFAS No. 123, the Company's pro forma net income and basic and diluted income per common share would have been as follows:

	<u>Three Months Ended</u> <u>April 30, 2005</u>	<u>Six Months Ended</u> <u>April 30, 2005</u>
	(In thousands, except per share amounts)	
Net income, as reported	\$ 27,827	\$ 45,536
Add: Stock-based director compensation expense included in reported net income, net of related tax effects	344	358
Deduct: Total stock-based employee and director compensation expense determined under fair value based method, net of related tax effects	(3,181)	(4,660)
Pro forma net income	<u>\$ 24,990</u>	<u>\$ 41,234</u>
Basic earnings per share:		
As reported	<u>\$ 0.63</u>	<u>\$ 1.14</u>
Pro forma	<u>\$ 0.57</u>	<u>\$ 1.04</u>
Diluted earnings per share:		
As reported	<u>\$ 0.59</u>	<u>\$ 1.06</u>
Pro forma	<u>\$ 0.53</u>	<u>\$ 0.97</u>

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

Note 2. Acquisitions

**Inlet Acquisition:** On November 1, 2005, Cooper purchased Inlet Medical, Inc. (Inlet), a manufacturer of trocar closure systems and pelvic floor reconstruction procedure kits. Inlet offers a cost-effective trocar wound closure system and supplies procedure kits for the treatment of pelvic support problems.

We paid \$25.5 million in cash for Inlet and have initially ascribed \$18.8 million to goodwill, a negative \$0.8 million to working capital (including acquisition costs of \$1 million and \$0.8 million of deferred tax liabilities), \$7.4 million to other intangible assets and \$0.1 million to property, plant and equipment. The purchase price can be adjusted up or down at the end of one year based on revenue and operating profit achievements. The allocation of the purchase price is subject to refinement as we are currently obtaining a third party valuation of the business, using income approach valuation methodology.

**NeoSurg Acquisition:** On November 15, 2005, Cooper acquired NeoSurg Technologies, Inc. (NeoSurg) for \$22.8 million in cash. NeoSurg has developed a patented combination reusable and disposable trocar access system to compete in the \$285 million market for trocars within the \$2.9 billion market for laparoscopic surgical devices.

We have initially ascribed \$15.6 million to goodwill, \$1.4 million to other intangible assets, \$7.5 million to in-process research and development, and negative \$1.7 million to working capital (including acquisition costs of \$1.4 million, deferred tax assets of \$1.3 million and a transaction fee of \$1.5 million). The allocation of the purchase price is subject to refinement as we are currently obtaining a third party valuation of the business, using income approach valuation methodology.

**Ocular Acquisition:** On January 6, 2005, Cooper acquired all of the outstanding common stock of Ocular, a global manufacturer and marketer of soft contact lenses, primarily spherical and daily disposable contact lenses that are brand and product differentiated by distribution channel. The aggregate consideration paid for the stock of Ocular was about \$1.2 billion plus transaction costs, less acquired cash. Cooper paid \$605 million in cash and issued approximately 10.7 million shares of its common stock 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.

The allocation of the purchase price was 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), amortizable over 15 years and \$60 million

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

to manufacturing technology amortizable over 10 years, \$357 million to tangible assets, \$20 million to in-process research and development (IPR&D), and \$139 million to liabilities assumed including about \$59.5 million of accrued acquisition costs.

The valuation was based in part on the following significant assumptions. Goodwill was determined using the residual method after all other identifiable assets were valued. The residual goodwill value was utilized for the purpose of balancing the asset returns in the valuation analysis. Customer relationship value was based on Ocular customer data that was used to determine a reasonable retention rate to be applied to Ocular revenue. The primary assumptions used in determining a value for customer relationships were a retention rate of 90%, expenses based on expected margin ratios, tax rate of 22% and discount rate of 10.5%. Manufacturing technology value was based on the relief from royalty method, one of the income approach valuation methods. The primary assumptions used in determining a value for manufacturing technology were a royalty rate of 6% applied to the revenues attributed to the purchased manufacturing technology as of the valuation date, a tax rate of 22% and a 10% discount rate applied to the anticipated after-tax royalty savings. IPR&D value was based on the excess earnings method, one of the income approach valuation methods. The primary assumptions used to determine a value for IPR&D were a 22% tax rate and a 25% discount rate. Tangible assets and liabilities assumed were based on net book value at the acquisition date. We determined that the net book value of property, plant and equipment was appropriate as a majority of these assets were acquired within five years of the acquisition date.

*Pro Forma*

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

	<u>Three Months Ended</u> <u>April 30,</u>		<u>Six Months Ended</u> <u>April 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In millions, except per share amounts)			
<i>Pro Forma</i>				
Net sales	\$ 211.4	\$ 215.5	\$ 417.1	\$ 413.3
Net income	\$ 13.7	\$ 27.8	\$ 31.7	\$ 13.3
Diluted earnings per share	\$ 0.30	\$ 0.59	\$ 0.69	\$ 0.30

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

Note 3. Acquisition and Restructuring Costs

When acquisitions are recorded, we accrue for the estimated direct costs of severance and plant/office closure costs of the acquired business in accordance with applicable accounting guidance including EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*. Management with the appropriate level of authority have completed or in the cases of Inlet and NeoSurg are in the process of completing their assessment of exit activities of the acquired companies and have substantially completed their integration plans. In addition, we accrue for costs directly associated with acquisitions, including legal, consulting, deferred payments and due diligence. There were no adjustments of accrued acquisition costs included in the determination of net income for the periods reported.

In connection with the January 6, 2005, acquisition of Ocular, we developed a plan to merge and consolidate the various CooperVision and Ocular functions over a three year period. The plan incorporates the consolidation of various facilities and operations, including manufacturing, distribution and administrative functions. In each of the phases we have identified costs associated with facility shutdown, employee and other specific costs. Included in our estimate are legal and consulting costs associated with the acquisition and the development and execution of the detailed integration plan.

Below is a summary of activity related to accrued acquisition costs for the six months ended April 30, 2006.

<u>Description</u>	<u>Balance</u> <u>Oct. 31, 2005</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>April 30, 2006</u>
		(In thousands)		
Plant shutdown	\$ 12,442	\$ 254	\$ 5,930	\$ 6,766
Severance	14,725	1,384	2,269	13,840
Legal and consulting	8,918	1,398	3,332	6,984
Preacquisition liabilities	768	—	—	768
Other	4,257	4,039	1,958	6,338
	<u>\$ 41,110</u>	<u>\$ 7,075</u>	<u>\$13,489</u>	<u>\$ 34,696</u>

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

We estimate that the total restructuring costs under this integration plan, 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 the restructuring costs incurred through April 30, 2006.

[Table of Contents](#)

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

	<u>Plant Shutdown</u>	<u>Severance</u> (In millions)	<u>Other</u>	<u>Total</u>
Restructuring costs incurred:				
Through October 31, 2005	\$ 1.9	\$ 2.1	\$ 6.5	\$10.5
For the six-month period ended April 30, 2006	<u>0.9</u>	<u>0.9</u>	<u>1.3</u>	<u>3.1</u>
	<u>\$ 2.8</u>	<u>\$ 3.0</u>	<u>\$ 7.8</u>	<u>\$13.6</u>

Note 4. Inventories, net

	<u>April 30, 2006</u>	<u>October 31, 2005</u>
	(In thousands)	
Raw materials	\$ 30,327	\$ 26,161
Work-in-process	13,534	16,083
Finished goods	<u>170,805</u>	<u>143,449</u>
	<u>\$214,666</u>	<u>\$185,693</u>

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

Note 5. Intangible Assets

**Goodwill**

	<u>CVI</u>	<u>CSI</u> (In thousands)	<u>Total</u>
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*	<u>(2,328)</u>	<u>—</u>	<u>(2,328)</u>
Balance as of October 31, 2005	1,047,538	121,511	1,169,049
Additions during the six-month period ended April 30, 2006	3,496	34,590	38,086
Other adjustments*	<u>2,098</u>	<u>—</u>	<u>2,098</u>
	<u>\$1,053,132</u>	<u>\$156,101</u>	<u>\$1,209,233</u>

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

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

**Other Intangible Assets**

	<u>As of April 30, 2006</u>		<u>As of October 31, 2005</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization &amp; Translation</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization &amp; Translation</u>
	(In thousands)			
Trademarks	\$ 1,607	\$ 210	\$ 1,651	\$ 236
Technology	88,562	15,715	83,725	13,113
Shelf space and market share	73,486	6,529	70,224	4,033
License and distribution rights and other	17,076	4,615	17,117	3,922
	<u>180,731</u>	<u>\$ 27,069</u>	<u>172,717</u>	<u>\$ 21,304</u>
Less accumulated amortization and translation	27,069		21,304	
Other intangible assets, net	<u>\$ 153,662</u>		<u>\$ 151,413</u>	

We estimate that amortization expense will be about \$14 million per year in the five-year period ending October 31, 2010.

**Note 6. Debt**

	<u>April 30, 2006</u>	<u>October 31, 2005</u>
	(In thousands)	
Short-term:		
Overdraft facilities	\$ 45,753	\$ 33,981
Current portion of long-term debt	12,867	38,279
	<u>\$ 58,620</u>	<u>\$ 72,260</u>
Long-term:		
Convertible senior debentures, net of discount of \$2,468 and 2,540	\$ 112,532	\$ 112,460
Credit facility	597,500	557,250
Other	1,022	1,221
	<u>711,054</u>	<u>670,931</u>
Less current portion	12,867	38,279
	<u>\$ 698,187</u>	<u>\$ 632,652</u>



THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

**Syndicated Bank Credit Facility:** On December 12, 2005, Cooper amended and restated its existing \$750 million syndicated bank credit facility. 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. 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 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. As of April 30, 2006, the additional basis points were 137.5 on both the revolver and the term loan.

Terms include a first security interest in all of the Company's domestic assets. The credit agreement:

- Limits Cooper's debt (total funded indebtedness) to a maximum of 50% of its total capitalization, which is defined as the sum of total debt plus stockholders' equity.
- 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 from December 12, 2005 through October 30, 2006, 3.0 to 1 from October 31, 2006 through October 30, 2007, 2.5 to 1 from October 31, 2007 through October 30, 2009, and 2.0 to 1 thereafter.

At April 30, 2006, the Company's debt was 36% of total capitalization, the ratio of EBITDA to fixed charges (as defined) was 1.2 to 1 and the ratio of debt to EBITDA was 3.2 to 1.

The Company wrote off \$4.1 million of debt issuance costs as a result of amending the facility in the first fiscal quarter of 2006. The remaining \$2.3 million of debt issuance costs and the additional \$625,000 cost incurred to amend the facility are carried in other assets and amortized to interest expense over its life.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

At April 30, 2006, we had \$148.7 million available under the credit facility:

<u>(In millions)</u>	
Amount of facility	\$ 750.0
Outstanding loans	<u>(601.3)*</u>
Available	<u>\$ 148.7</u>

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

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

**European Overdraft Facility:** At April 30, 2006, \$25.7 million of the \$40 million facility was utilized. The weighted average interest rate on the outstanding balances was 4.79%.

**Japan Overdraft Facility:** On February 22, 2006, the Company entered into a \$15 million Yen-denominated credit facility allowing the Company to better manage its cash in Japan. The Company also provided a continuing and unconditional guaranty to the bank on behalf of its Japanese subsidiary, CooperVision K.K. The Company will pay to the bank all forms of indebtedness in Yen upon demand by the bank. Interest expense is calculated on the outstanding balance based on the EuroYen rate plus a 1% fixed spread. At April 30, 2006, \$13.8 million of the \$15 million was utilized. The weighted average interest rate on the outstanding balances was 1.07%.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

Note 7. Earnings Per Share (EPS)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2006	2005	2006	2005
	(In thousands, except for per share amounts)			
Net income	\$ 13,701	\$ 27,827	\$ 31,655	\$ 45,536
Add interest charge applicable to convertible debt, net of tax	523	524	1,045	1,048
Income for calculating diluted earnings per share	<u>\$ 14,224</u>	<u>\$ 28,351</u>	<u>\$ 32,700</u>	<u>\$ 46,584</u>
Basic:				
Weighted average common shares	<u>44,520</u>	<u>43,980</u>	<u>44,508</u>	<u>39,801</u>
Basic earnings per common share	<u>\$ 0.31</u>	<u>\$ 0.63</u>	<u>\$ 0.71</u>	<u>\$ 1.14</u>
Diluted:				
Weighted average common shares	44,520	43,980	44,508	39,801
Effect of dilutive stock options	467	1,534	508	1,610
Shares applicable to convertible debt	2,590	2,590	2,590	2,590
Diluted weighted average common shares	<u>47,577</u>	<u>48,104</u>	<u>47,606</u>	<u>44,001</u>
Diluted earnings per common share	<u>\$ 0.30</u>	<u>\$ 0.59</u>	<u>\$ 0.69</u>	<u>\$ 1.06</u>

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2006	2005	2006	2005
Number of shares excluded	<u>2,129,133</u>	<u>10,000</u>	<u>2,129,133</u>	<u>10,000</u>
Exercise prices	<u>\$55.33-\$80.51</u>	<u>\$ 80.51</u>	<u>\$55.33-\$80.51</u>	<u>\$ 80.51</u>

Note 8. Share-Based Compensation Plans

The Company has two share-based compensation plans, which include stock options and restricted stock awards. The Second Amended and Restated 2001 Long-Term Incentive Plan (2001 LTIP) and the 2006 Long-Term Incentive Plan for Non-Employee Directors (2006 Directors Plan) are the only plans with stock awards currently available for grant as of April 30, 2006. The 2006 Directors Plan has replaced the 1996 Long-Term Incentive Plan for Non-Employee Directors (1996 Directors Plan), which expired in November 2005 by its terms.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

The compensation expense and related income tax benefit recognized in the Company's consolidated financial statements for stock options and restricted stock awards were as follows:

	<u>Three Months Ended</u> <u>April 30, 2006</u>	(In millions)	<u>Six Months Ended</u> <u>April 30, 2006</u>
Selling, general and administrative expenses	\$ 3.1		\$ 7.9
Cost of products sold	0.1		0.1
Research and development expense	0.1		0.2
Capitalized in inventory	0.3		0.6
Total compensation expense	<u>\$ 3.6</u>		<u>\$ 8.8</u>
Related income tax benefit	<u>\$ 0.7</u>		<u>\$ 2.1</u>

Cash received from options exercised under all share-based payment arrangements for the three and six months ended April 30, 2006, was \$0.4 million and \$2.5 million, respectively.

The Company issues shares from treasury stock upon the exercise of 1996 Directors Plan stock options. The Company did not repurchase shares in the first half of fiscal 2006.

During the second fiscal quarter of 2006, the Company received stockholder approval of the Second Amended and Restated 2001 Long-Term Incentive Plan and the 2006 Long-Term Incentive Plan for Non-Employee Directors (2006 Directors Plan), and no further awards will be granted from the 1996 Directors Plan.

Details regarding the valuation and accounting for stock options follow.

The fair value of each option award granted after the adoption of SFAS 123R is estimated on the date of grant using the Black-Scholes option valuation model and assumptions noted in the following table.

	<u>Three Months Ended</u> <u>April 30, 2006</u>	<u>Six Months Ended</u> <u>April 30, 2006</u>
Expected life	4.42 to 5.16 years	3.56 to 5.16 years
Expected volatility	29.5% to 30.2%	29.5% to 30.8%
Risk-free interest rate	4.38% to 4.52%	4.37% to 4.52%
Dividend yield	0.09%	0.09%

The expected life of the options is based on the observed and expected time to post-vesting forfeiture and exercise. Groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected volatility is based on implied volatility from publicly-traded options on the Company's stock at the date of grant, historical implied volatility of the Company's publicly-traded options and other factors. The risk-free interest rate is based on the continuous rates provided by the U.S. Treasury with a term equal to the expected life of the option. The dividend yield is based on the projected annual dividend payment per share, divided by the stock price at the date of grant.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

The fair value of each option award granted during the first half of fiscal 2005 was estimated on the date of grant using the Black-Scholes option valuation model and weighted-average assumptions in the following table.

	<u>Three Months Ended</u> <u>April 30, 2005</u>	<u>Six Months Ended</u> <u>April 30, 2005</u>
Expected life	3.5 years	3.5 years
Expected volatility	28%	28%
Risk-free interest rate	3.82%	3.48%
Dividend yield	0.089%	0.098%

The status of the Company's stock option plans at April 30, 2006, is summarized below:

	<u>Number of</u> <u>Shares</u>	<u>Weighted-</u> <u>Average</u> <u>Exercise Price</u> <u>Per Share</u>	<u>Weighted-</u> <u>Average</u> <u>Remaining</u> <u>Contractual</u> <u>Term</u> <u>(in Years)</u>	<u>Aggregate</u> <u>Intrinsic</u> <u>Value</u>
Outstanding at October 31, 2005	3,967,609	\$ 50.66		
Granted	188,067	\$ 64.92		
Exercised	(90,833)	\$ 27.51		
Forfeited or expired	(35,250)	\$ 68.25		
Outstanding at April 30, 2006	<u>4,029,593</u>	\$ 51.71	7.80	\$ 8,213,628
Vested and exercisable at April 30, 2006	<u>1,882,025</u>	\$ 37.67	6.53	\$30,258,210

The weighted-average fair value of each option granted during the three and six months ended April 30, 2006, estimated as of the grant date using the Black-Scholes option pricing model, for the 2001 LTIP was \$16.93 and \$16.57, respectively, and for the Directors Plans were \$19.33 and \$23.74, respectively. The total intrinsic value of options exercised during the first half of fiscal 2006 was \$3 million. The expected requisite service periods for options granted in both the three and six months ended April 30, 2006 for employees and directors was 33 months and 4 months, respectively.

Stock awards outstanding under the Company's current plans have been granted at prices which are either equal to or above the market value of the stock on the date of grant. Options granted under the 2001 LTIP generally vest over three and one-half to five years based on market and service conditions and expire no later than ten years after the grant date. Options granted under the 2006 Directors Plan and the 1996 Directors Plan generally vest in five years or upon achievement of a market condition and expire no later than ten years after the grant date. Effective November 1, 2005, the Company generally recognizes compensation expense ratably over the vesting period.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

As of April 30, 2006, there was \$27.1 million of total unrecognized compensation cost related to nonvested options, which is expected to be recognized over a remaining weighted-average vesting period of 2.7 years.

Note 9. Income Taxes

Cooper's effective tax rate (ETR) (provision for income taxes divided by pretax income) for the first half of fiscal 2006 was 11.37 percent. Accounting principles generally accepted in the United States of America (GAAP) require that the projected fiscal year ETR be included in the year-to-date results. The ETR used to record the provision for income taxes for the six-month period ended April 30, 2005 was 21 percent. The decrease in the 2006 ETR reflects the continuing shift of business to jurisdictions with lower tax rates.

The Company has not provided for Federal income tax on approximately \$333.8 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.

Note 10. Employee Benefits

Cooper's Retirement Income Plan (Plan) covers substantially all full-time United States employees. Cooper's contributions are designed to fund normal cost on a current basis and to fund over 30 years the estimated prior service cost of benefit improvements (5 years for annual gains and losses). The unit credit actuarial cost method is used to determine the annual cost. Cooper pays the entire cost of the Plan and funds such costs as they accrue. Virtually all of the assets of the Plan are comprised of equity and fixed income funds.

Cooper has adopted the interim financial statement disclosure requirements of SFAS No. 132 (Revised 2003), *Employers' Disclosures about Pension and Other Postretirement Benefits*. The provisions of SFAS No. 132, as revised, require additional disclosure to those in the original SFAS No. 132 regarding assets, obligations, cash flows and net periodic pension benefit cost of defined benefit plans. Cooper's results of operations for the three and six months ended April 30, 2006 and 2005 reflect the following pension costs.

[Table of Contents](#)

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

	<u>Three Months Ended</u> <u>April 30,</u>		<u>Six Months Ended</u> <u>April 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In thousands)			
Components of net periodic pension cost:				
Service cost	\$ 761	\$ 480	\$ 1,501	\$ 960
Interest cost	398	355	786	710
Expected returns on assets	(420)	(342)	(841)	(684)
Amortization of prior service cost	8	7	14	14
Amortization of transition obligation	6	7	14	14
Recognized net actuarial loss	109	70	225	140
Net periodic pension cost	<u>\$ 862</u>	<u>\$ 577</u>	<u>\$ 1,699</u>	<u>\$ 1,154</u>
Pension contributions:				
Contributions made during period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

**Note 11. Cash Dividends**

We paid a semiannual dividend of 3 cents per share on January 5, 2006, to stockholders of record on December 16, 2005.

On May 12, 2006, we announced that the Company declared a semiannual dividend of 3 cents per share payable on July 5, 2006, to stockholders of record on June 14, 2006.

**Note 12. Contingencies**

On February 15, 2006, a putative securities class action lawsuit was filed in the United States District Court for the Central District of California, Case No. SACV-06-169 CJC, against the Company, A. Thomas Bender, its Chairman of the Board, President and Chief Executive Officer and a director, Robert S. Weiss, its Executive Vice President, Chief Operating Officer and director, and John D. Fruth, director. The complaint was filed on behalf of purchasers of the Company's securities between July 29, 2004, and November 21, 2005, including persons who received Company securities in exchange for their shares of Ocular in the January 2005 merger pursuant to which the Company acquired Ocular.

The complaint purports to allege violations of Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 by, among other things, contending that: (a) the Company improperly accounted for assets acquired in the Ocular merger by misclassifying intangible assets as tangible ones; (b) the Company's earnings guidance reflected the improper accounting for intangible assets and was inflated by (among other things) the amount of the understated amortization expense; (c) the merger synergies touted by defendants were unrealistic and were lacking in any reasonable basis; (d) Ocular had "stuffed the channel" with its *Biomedics* products so that inventories would have to be sold off before a material amount of new sales

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

could reasonably be expected, which would have a materially negative impact on the Company's revenues; (e) the Company's lack of a two-week silicone hydrogel product would prevent it from meeting its aggressive growth targets for 2005 and beyond; and (f) CooperVision and Ocular competed in the two-week lens market, which negatively impacted the Company's ability to realize synergies from the Ocular acquisition. This lawsuit, which is in a very preliminary stage, seeks unspecified damages.

Shortly after the filing of the Levine lawsuit, two similar putative class action lawsuits also were filed in the United States District Court for the Central District of California, Case Nos. SACV-06-306 CJC and SACV-06-331 CJC. On May 19, 2006, the Court consolidated all three actions under the heading *In re Cooper Companies, Inc. Securities Litigation* and selected a lead plaintiff and lead counsel pursuant to the provisions of the Private Securities Litigation Reform Act of 1995, 15 U.S.C. § 78u-4. The lead plaintiff is in the process of preparing a consolidated complaint. The Company intends to vigorously defend these matters.

On March 17, 2006, Eben Brice filed a purported shareholder derivative complaint in the United States District Court for the Central District of California, Case No. 8:06-CV-00300-CJC-RNB, against A. Thomas Bender, the Company's Chairman of the Board, President and Chief Executive Officer, Robert S. Weiss, its Executive Vice President, Chief Operating Officer and a director and directors John D. Fruth, Michael H. Kalkstein, Moses Marx, Donald Press, Steven Rosenberg, Allan E. Rubenstein and Stanley Zinberg (the "Brice Action"). The Company is named as a "nominal defendant." The complaint purports to allege causes of action for breach of fiduciary duty, abuse of control, gross mismanagement, constructive fraud, and unjust enrichment, and largely repeats the allegations in the class action securities case, described above. However, as stated above, the complaint is derivative in nature and does not seek monetary damages from the Company.

Since the filing of the first purported shareholder derivative lawsuit, three similar purported shareholder derivative suits were filed in the United States District Court for the Central District of California, Case Nos. Case Nos. 8:06-cv-00434-CJC-RNB, 8:06-cv-00471-CJC-RNB, and Case Nos. 8:06-cv-00508-DOC-RNB. In addition, three similar purported shareholder derivative actions were filed and are currently pending in the Superior Court for the State of California for the County of Alameda, Case Nos. RG06260748, RG06266913, and RG6261152. These six additional purported derivative actions repeat many of the allegations in the Brice Action. However, some of these derivative lawsuits also purport to state causes of action for violation of California's insider trading statute, waste of corporate assets, breach of contract, and for contribution. These additional actions are asserted against the same defendants as in the Brice Action, and some of the plaintiffs also name as defendants Edgar J. Cummins, a former director, Jody S. Lindell, a current director, Gregory Fryling, the President and Chief Operating Officer of CooperVision, Carol R. Kaufman, the Company's Senior Vice President of Legal Affairs, Secretary and Chief Administrative Officer, B. Norris Battin, the Company's Vice President of Investor Relations and Communications, Paul L. Remmell, Chief Operating Officer and President of CooperSurgical, Jeffrey A. McLean, President, U.S. Operations of CooperVision, and Nicholas J. Pichotta, Chief Executive Officer of CooperSurgical.

All of the purported shareholder derivative actions are presently in preliminary procedural phases, and the Company and the individual defendants have yet to respond to any of the complaints. All of the actions are derivative in nature and do not seek monetary damages from the Company.

On October 5, 2004, Bausch & Lomb Incorporated (Bausch & Lomb) filed a lawsuit against Ocular Sciences, Inc. in the U.S. District Court for the Western District of New York alleging that its *Biomedics* toric soft contact lens and its private label equivalents infringe Bausch & Lomb's U.S. Patent No. 6,113,236 relating to toric contact lenses having optimized thickness profiles. The complaint seeks an award of damages, including multiple damages, attorneys' fees and costs and an injunction preventing the alleged infringement. The parties have filed claim construction briefs for the court to consider for its Markman order, and fact discovery substantially concluded during the first quarter of fiscal 2006. Based on our review of the complaint and the patent, as well as other relevant information obtained in discovery, we believe this lawsuit is without merit and plan to continue to pursue a vigorous defense.

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

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

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



THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Continued  
(Unaudited)

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.

On April 11, 2006, CooperVision filed a lawsuit against CIBA Vision (Ciba) in the United States District Court for the District of Delaware seeking a judicial declaration that CooperVision's *Biofinity* line of silicone hydrogel contact lenses does not infringe any valid and enforceable claims of United States Patent Nos. 5,760,100, 5,776,999, 5,789,461, 5,849,811, 5,965,631 and 6,951,894. Ciba has not yet filed a response to this suit.

Note 13. Business Segment Information

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

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

Segment information:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2006	2005	2006	2005
	(In thousands)			
Net sales to external customers:				
CVI	\$ 181,668	\$ 188,889	\$ 357,294	\$ 309,938
CSI	29,729	26,605	59,842	53,106
	<u>\$ 211,397</u>	<u>\$ 215,494</u>	<u>\$ 417,136</u>	<u>\$ 363,044</u>
Operating income (loss):				
CVI	\$ 33,779	\$ 41,220	\$ 70,806	\$ 68,164
CSI	(2,119)	4,208	3,156	7,725
Headquarters	(7,180)	(4,681)	(15,768)	(8,525)
Total operating income	24,480	40,747	58,194	67,364
Interest expense	(7,787)	(8,015)	(16,215)	(11,663)
Other expense, net	(1,100)	2,469	(6,263)	1,855
Income before income taxes	<u>\$ 15,593</u>	<u>\$ 35,201</u>	<u>\$ 35,716</u>	<u>\$ 57,556</u>

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Condensed Financial Statements, Concluded  
(Unaudited)

	<u>April 30,</u> <u>2006</u>	<u>October 31,</u> <u>2005</u>
(In thousands)		
Identifiable assets:		
CVI	\$ 1,994,094	\$ 1,884,955
CSI	231,375	185,497
Headquarters	65,356	109,378
Total	<u>\$ 2,290,825</u>	<u>\$ 2,179,830</u>

## Geographic information:

	<u>Three Months Ended</u> <u>April 30,</u>		<u>Six Months Ended</u> <u>April 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
(In thousands)				
Net sales to external customers by country of domicile:				
United States	\$ 110,838	\$ 107,069	\$ 212,339	\$ 187,555
Europe	62,602	66,152	124,799	114,357
Rest of world	37,957	42,273	79,998	61,132
Total	<u>\$ 211,397</u>	<u>\$ 215,494</u>	<u>\$ 417,136</u>	<u>\$ 363,044</u>

	<u>April 30,</u> <u>2006</u>	<u>October 31,</u> <u>2005</u>
(In thousands)		
Long-lived assets by country of domicile:		
United States	\$ 215,699	\$ 189,538
Europe	224,370	186,716
Rest of world	7,362	3,531
Total	<u>\$ 447,431</u>	<u>\$ 379,785</u>

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations

Note numbers refer to "Notes to Consolidated Condensed Financial Statements" beginning on page 7.

**Forward-Looking Statements:** This Quarterly Report on Form 10-Q contains "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. These include certain statements about the integration of the Ocular business, our capital resources, performance and results of operations. In addition, all statements regarding anticipated growth in our revenue, anticipated market conditions, planned product launches and results of operations are forward-looking. To identify these statements look for words like "believes," "expects," "may," "will," "should," "could," "seeks," "intends," "plans," "estimates" or "anticipates" and similar words or phrases. Discussions of strategy, plans or intentions often contain forward-looking statements. Forward-looking statements necessarily depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. These include the risk that acquired businesses will not be integrated successfully into CVI and CSI, including the risk that the Company may not continue to realize anticipated benefits from its cost-cutting measures and inherent in accounting assumptions made in the acquisitions; the risks that CVI's new products will be delayed or not occur at all, or that sales will be limited following introduction due to manufacturing constraints or poor market acceptance; risks related to implementation of information technology systems covering the Company's businesses and any delays in such implementation or other events which could result in Management having to report a significant deficiency or material weakness in the effectiveness of the Company's internal control over financial reporting in its 2006 annual report on Form 10-K; and risks with respect to the ultimate validity and enforceability of the Company's patent applications and patents and the possible infringement of the intellectual property of others; and the impact of the NeoSurg and Inlet acquisitions on CSI's and the Company's revenue, earnings and margins.

Events, among others, that could cause our actual results and future actions of the Company to differ materially from those described in forward-looking statements include major changes in business conditions, a major disruption in the operations of our manufacturing or distribution facilities, new competitors or technologies, significant delays in new product introductions, the impact of an undetected virus on our computer systems, acquisition integration delays or costs, increases in interest rates, foreign currency exchange exposure, investments in research and development and other start-up projects, variations in stock option expenses caused by stock price movement or other assumptions inherent in accounting for stock options, dilution to earnings per share from acquisitions or issuing stock, worldwide regulatory issues, including product recalls and the effect of healthcare reform legislation, cost of complying with corporate governance requirements, changes in tax laws or their interpretation, changes in geographic profit mix effecting tax rates, significant environmental cleanup costs above those already accrued, litigation costs including any related settlements or judgments, the adverse effects on patients, practitioners and product distribution of natural disasters, cost of business divestitures, the requirement to provide for a significant liability or to write off a significant asset, including impaired goodwill, changes in accounting principles or estimates and other events described in our Securities and Exchange Commission filings, including the "Business" and "Risk Factors"

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

sections in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2005, as updated by the "Risk Factors" section in the Company's Quarterly Report on Form 10-Q for the quarter ended January 31, 2006, and the "Risk Factors" section in Part II, Item 1A of this report. We caution investors that forward-looking statements reflect our analysis only on their stated date. We disclaim any intent to update them except as required by law.

**Results of Operations**

In this section we discuss the results of our operations for the second fiscal quarter of 2006 and compare them with the same period of fiscal 2005. We discuss our cash flows and current financial condition beginning on page 37 under "Capital Resources and Liquidity."

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

**Second Quarter Highlights:**

- Sales of \$211.4 million, down 2% but up 1% in constant currency.
- Gross margin 62% of revenue.
- Operating income of \$24.5 million.
- Diluted earnings per share at 30 cents, down from 59 cents.
- Operating results include \$3.3 million of stock option expense, \$0.9 million of litigation expenses related to intellectual property and securities litigation and acquisition and restructuring expenses including expenses of \$1.4 million for restructuring, \$3.6 million for manufacturing and distribution start-up costs, \$2.2 million in losses and costs associated with corneal health product lines being phased out and a charge of \$7.5 million for acquired in-process research and development. Our results also include a \$0.9 million loss on foreign exchange.

**Six-Month Highlights:**

- Sales of \$417.1 million up 15%, 19% in constant currency.
- Gross margin 62% of revenue.
- Operating income of \$58.2 million.
- Diluted earnings per share at 69 cents down from \$1.06, with an 8% increase in the number of diluted shares.
- Operating results include \$8.2 million of stock option expense, \$0.9 million of litigation expenses related to intellectual property and securities litigation and acquisition and restructuring expenses including expenses of \$3.1 million for restructuring, \$3.6 million for manufacturing and distribution start-up costs, \$3.1 million in net losses and costs associated with corneal health product lines being phased out and a charge of \$7.5 million for acquired in-process research and development. Our results also include a \$4.1 million write-off of debt issuance costs and a \$1.7 million loss on foreign exchange.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

**Outlook**

We are in the process of developing and launching a number of new contact lens products that we believe will result in Cooper continuing to have a broad and competitive product line. New products planned for introduction over the next two years include lenses utilizing our proprietary *PC Technology*, lenses utilizing silicone hydrogel materials and new lens designs, including multi-focal lenses. Contact lenses utilizing silicone hydrogel materials have grown significantly and Cooper believes that this material is rapidly becoming a major product material in the industry. To date the Company has launched only one silicone hydrogel lens design with limited distribution in Europe. While initial customer reaction from this lens has been favorable, our future growth may be limited by several critical factors relating to silicone hydrogel materials. We are incurring additional manufacturing costs as we attempt to ramp up silicone hydrogel volumes and improve efficiencies. We are also engaged in litigation with regard to our silicone hydrogel product and certain lens design patents. We believe that our ability to succeed with silicone hydrogel products will be an important factor affecting future levels of sales growth and profitability.

On a recurring basis we review our global product offering and decide to add to and delete from our product offering based upon our current marketing plans. As part of this process, in May 2006 we decided to focus our vision business specifically on contact lenses and, therefore, decided to phase out our corneal health products. We are considering strategic alternatives for our corneal health products and anticipate that we will complete our assessment of alternatives over the next several quarters.

Regarding capital resources, we believe that cash and cash equivalents on hand of \$16.6 million plus cash from operating activities will fund future operations, capital expenditures, cash dividends and smaller acquisitions. We expect capital expenditures in fiscal 2006 of \$150-\$160 million, with about 70% for expanded manufacturing capacity, about 20% for conversion of CVI's products to the Gen II manufacturing platform and consolidation of distribution centers and about 10% for information technology. At April 30, 2006, we had \$148.7 million available under the KeyBank line of credit.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

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

	Percent of Sales Three Months Ended April 30,			Percent of Sales Six Months Ended April 30,		
	2006	2005	% Growth	2006	2005	% Growth
Net sales	100%	100%	(2)%	100%	100%	15%
Cost of sales	38%	39%	(6)%	38%	39%	12%
Gross profit	62%	61%	1%	62%	61%	17%
Selling, general and administrative expense	42%	37%	11%	41%	39%	24%
Research and development expense	6%	2%	160%	5%	1%	142%
Restructuring costs	—	1%	(50)%	—	1%	(8)%
Amortization of intangibles	2%	2%	3%	2%	1%	45%
Operating income	<u>12%</u>	<u>19%</u>	(40)%	<u>14%</u>	<u>19%</u>	(14)%

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

- CVI markets, develops and manufacturers a broad range of contact lenses for the worldwide vision care market.
- CSI markets, develops and manufacturers medical devices, diagnostic products and surgical instruments and accessories used primarily by gynecologists and obstetricians.

Our consolidated net sales declined \$4.1 million or 2% in the three-month period and grew \$54.1 million or 15% in the six-month period:

	Three Months Ended April 30,			Six Months Ended April 30,		
	2006	2005	Growth	2006	2005	Growth
	(\$ in millions)					
CVI	\$ 181.7	\$ 188.9	(4)%	\$ 357.3	\$ 309.9	15%
CSI	29.7	26.6	12%	59.8	53.1	13%
	<u>\$ 211.4</u>	<u>\$ 215.5</u>	(2)%	<u>\$ 417.1</u>	<u>\$ 363.0</u>	15%

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

**CVI Net Sales by Market:**

<b>Geographic Segment</b>	<b>Three Months Ended April 30,</b>			<b>Six Months Ended April 30,</b>		
	<u>2006</u>	<u>2005</u>	<u>Growth</u>	<u>2006</u>	<u>2005</u>	<u>Growth</u>
	(\$ in millions)					
Americas	\$ 93.2	\$ 90.2	3%	\$ 176.7	\$ 150.6	17%
Europe	63.9	67.3	(5)%	127.7	115.1	11%
Asia/Pacific	24.6	31.4	(22)%	52.9	44.2	20%
Total	<u>\$ 181.7</u>	<u>\$ 188.9</u>	(4)%	<u>\$ 357.3</u>	<u>\$ 309.9</u>	15%

CVI's worldwide net sales declined 4% and grew 15% in the three- and six-month periods, (1)% and 20% in constant currency. Americas sales grew 3% and 17% in the three- and six-month periods, 2% and 16% in constant currency. European sales declined 5% and grew 11% in the three- and six-month periods but grew 3% and 21% in constant currency. Sales to the Asia-Pacific region declined 22% and grew 20% in the three- and six-month periods, down 15% and up 31% in constant currency. Net sales of Ocular have been included since the acquisition date of January 6, 2005.

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

- Conventional lenses replaced annually to disposable and frequently replaced lenses. Disposable lenses are designed for either daily, two-week or monthly replacement; frequently replaced lenses are designed for replacement after one to three months.
- Commodity lenses to specialty lenses including toric lenses, cosmetic lenses and multifocal lenses.
- Commodity spherical lenses to value-added spherical lenses such as continuous wear lenses and lenses to alleviate dry eye symptoms as well as lenses with aspherical optical properties or higher oxygen permeable lenses such as silicone hydrogels.

These shifts generally favor CVI's line of specialty and value added products, which now comprise more than 50% of CVI's worldwide business. In the first half of fiscal 2006, CVI commenced sales of a silicone hydrogel product in Europe and is in the process of expanding its manufacturing capacity to grow sales and for the release of the product in the United States in the second half of calendar 2006.

Definitions: Contact lens revenue includes sales of conventional, disposable, long-term extended wear lenses and single-use spherical lenses, some of which are aspherically designed, and specialty lenses - toric lenses, cosmetic lenses and multifocal lenses. Core product revenue includes specialty lenses plus *PC Technology* brand spherical lenses, silicone hydrogel spherical lenses and single-use spherical lenses.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

- Aspheric lenses correct for near- and farsightedness and have additional optical properties that help improve visual acuity in low light conditions and can correct low levels of astigmatism and low levels of presbyopia, an age-related vision defect.
- Toric lens designs correct astigmatism by adding the additional optical properties of cylinder and axis, which correct for irregularities in the shape of the cornea.
- Cosmetic lenses are opaque and color enhancing lenses that alter the natural appearance of the eye.
- Multifocal lens designs correct presbyopia.
- *Proclear* lenses, manufactured using proprietary phosphorylcholine (PC) technology, help enhance tissue/device compatibility and offer improved lens comfort.

Net sales for the quarter declined 4% with single-use spheres down 12%, at \$19 million, all disposable spheres down 10% and total spheres down 12%. Disposable toric sales grew 9%, disposable multifocal sales were up 39% and total toric sales grew 5%. CVI's line of specialty lenses grew 7% during the quarter. *Proclear* products continued global market share gains as *Proclear* toric sales increased 41% to \$8.4 million, *Proclear* spheres increased 9% to \$18.1 million and *Proclear* multifocal lenses increased 124% to \$5 million. Single-use sales declined largely due to our inability during the quarter to meet product demand in Japan where CVI had introduced a new packaging format for the product.

Sales growth is driven primarily through increases in the volume of lenses sold as the market continues to move to more frequent replacement. While unit growth and product mix have influenced revenue growth, average realized prices by product have not materially influenced revenue growth.

**CSI Net Sales:** CSI's net sales increased 12% and 13% to \$29.7 million and \$59.8 million in the three- and six-month periods, respectively. Women's healthcare products used primarily in obstetricians' and gynecologists' practices generate about 90% of CSI's sales. The balance are sales of medical devices outside of women's healthcare, which CSI does not actively market. The Inlet product line, acquired in November 2006, had net sales of about \$2.9 million and \$5.7 million in the three- and six-month periods. CSI's organic sales growth was about 5% for the year-to-date period. CSI's recent acquisitions did not significantly affect Cooper's results of operations. While unit growth and product mix have influenced organic revenue growth, average realized prices by product have not materially influenced organic revenue growth.



THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

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

	Margin Three Months Ended April 30,		Margin Six Months Ended April 30,	
	2006	2005	2006	2005
	CVI	63%	61%	63%
CSI	59%	56%	58%	56%
Consolidated	62%	61%	62%	61%

CVI's margin was 63% for the three-month and six-month periods of fiscal 2006 compared with 61% and 62%, respectively, for the prior year as a result of the changing product mix from the acquisition of Ocular and the impact of unfavorable foreign currency that flowed through cost of sales. The changing product mix included the addition of Ocular's lower margin sphere products, including single-use spheres that represented 11.2% of lens sales in the current period compared to 8.8% in the first half of fiscal 2005. CVI's fiscal 2006 cost of sales include stock option expense and acquisition and restructuring costs, which include costs related to disruptions in manufacturing associated with the conversion of single-use lenses to new packaging in a strip blister format, the relocation of *Proclear* manufacturing from Norfolk, Va., to Southampton in the United Kingdom, profits and losses associated with product lines being phased out and start-up costs for our new silicone hydrogel products. These costs amounted to \$2.7 million or 1% of sales in the three-month period and \$2.7 million or 0.6% of sales in the six-month period. For 2005, cost of sales included restructuring costs and inventory step-up costs associated with the Ocular acquisition, which amounted to \$8.4 million or 4% of sales in the three-month period and \$10.8 million or 3% of sales in the six-month period. Manufacturing inefficiencies associated with the ramp up of new products and plant realignment activities are expected to continue in the second half of the year.

CSI's margin was 59% and 58% for the three- and six-month periods ended April 30, 2006, compared with 56% for both of the same periods in fiscal year 2005. Higher gross margin reflects continuing efficiencies from CSI's restructuring activities completed in the fourth quarter of fiscal 2005 and the successful integration of acquisitions.

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

	Three Months Ended April 30,					Six Months Ended April 30,				
	2006	% Net Sales	2005	% Net Sales	% Incr. (Decr.)	2006	% Net Sales	2005	% Net Sales	% Incr. (Decr.)
	(\$ in millions)									
CVI	\$70.6	39%	\$65.4	35%	8%	\$135.7	38%	\$112.0	36%	21%
CSI	10.8	37%	9.4	35%	15%	21.5	36%	19.4	37%	11%
Headquarters	7.2	—	4.7	—	53%	15.8	—	8.5	—	85%
	<u>\$88.6</u>	42%	<u>\$79.5</u>	37%	11%	<u>\$173.0</u>	41%	<u>\$139.9</u>	39%	24%

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

In the second quarter of fiscal 2006, consolidated SGA increased 11%, and as a percentage of revenue increased to 42% from 37% in the prior year for the three-month period and increased to 41% from 39% for the six-month period. Stock option expenses of \$3.1 million, CVI's restructuring costs, including the rationalization of distribution centers in Europe and the United States from 21 to 5 locations, and litigation expenses related to intellectual property matters contributed largely to the SGA increases. Corporate headquarters' expenses increased 53% to \$7.2 million and 85% to \$15.8 million in the three- and six-month periods. The 2006 corporate expenses for the quarter include \$1.7 million of stock option expenses (\$5.1 million year to date) and \$0.3 million for expenses related to securities litigation along with increased costs to comply with corporate governance requirements and continued expenses for projects to maintain the Company's global trading arrangement. We expect litigation expenses related to intellectual property matters and the securities litigation to increase over the course of 2006 and to continue to be significant in 2007.

**Research and Development Expense:** During the second fiscal quarter, CVI's research and development expenditures were \$5.6 million up 25% and \$10.8 up 66% for the three-month and six-month periods over 2005. CVI's research and development activities include programs to develop disposable silicone hydrogel products, product lines utilizing *PC Technology* and expansion of single-use product lines.

CSI's research and development expenditures were \$0.8 million and \$1.5 million, before a \$7.5 million charge for acquired in-process research and development associated with the first quarter of fiscal 2006 acquisition of NeoSurg, down 7% and 9% for the three-month and six-month periods. CSI's research and development activities were primarily for upgrading and redesign of many CSI osteoporoses, in-vitro fertilization, incontinence and assisted reproductive technology products and other obstetrical and gynecological product development activities.

**Operating Income:** Operating income decreased by \$16.2 million or 40% and \$9.2 million or 14% for the three- and six-month periods, respectively:

	Three Months Ended April 30,					Six Months Ended April 30,				
	2006	% Net Sales	2005	% Net Sales	% Incr. (Decr.)	2006	% Net Sales	2005	% Net Sales	% Incr. (Decr.)
	(\$ in millions)									
CVI	\$33.8	19%	\$41.2	22%	(18%)	\$ 70.8	20%	\$68.2	22%	4%
CSI	(2.1)	(7%)	4.2	16%	(150%)	3.2	5%	7.7	15%	(59%)
Headquarters	(7.2)	—	(4.7)	—	(53%)	(15.8)	—	(8.5)	—	(85%)
	<u>\$24.5</u>	12%	<u>\$40.7</u>	19%	(40%)	<u>\$ 58.2</u>	14%	<u>\$67.4</u>	19%	(14%)

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

**Interest Expense:** Interest expense decreased by \$0.2 million or 3% in the three-month period and increased by \$4.6 million or 39% in the six-month period. On December 12, 2005, we amended and restated our \$750 million syndicated bank credit facility used to fund the acquisition of Ocular. We had \$597.5 million in loans on our credit facility at April 30, 2006, compared to \$603 million outstanding on April 30, 2005.

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

	<u>Three Months Ended</u> <u>April 30,</u>		<u>Six Months Ended</u> <u>April 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In thousands)			
Unrealized gain on derivative instruments	\$ —	\$ 2,834	\$ —	\$ 2,834
Interest income	95	160	178	360
Foreign exchange (loss) gain	(908)	(395)	(1,746)	86
Unamortized debt issuance costs	—	—	(4,085)	(1,602)
Gain on sale of marketable securities	—	—	—	120
Other	(287)	(130)	(610)	57
	<u>\$ (1,100)</u>	<u>\$ 2,469</u>	<u>\$ (6,263)</u>	<u>\$ 1,855</u>

In the first quarter of fiscal 2006, we wrote off debt issuance costs related to our previous credit agreement of \$4.1 million, and in the first half of 2005 we wrote off \$1.6 million of debt issuance costs for a prior credit agreement and recorded a \$2.8 million unrealized gain on derivative instruments. We had foreign exchange losses of \$0.9 million and \$1.7 million in the three- and six-month periods of fiscal 2006 compared with a loss of \$0.4 million and a gain of \$0.1 million in the same periods of fiscal 2005.

**Provision for Income Taxes:** We recorded tax expense of \$4 million in the first half of fiscal 2006 compared to \$12 million in the first half of fiscal 2005, on income before income taxes. The effective tax rate for the first half of fiscal 2006 (provision for taxes divided by income before taxes) was approximately 11.4 percent compared to approximately 21 percent for the first half of fiscal 2005 reflecting the shift of business to jurisdictions with lower tax rates.

**Share-Based Compensation Plans:** Effective November 1, 2005, the Company began recording compensation expense associated with stock options and other forms of equity compensation in accordance with SFAS 123R, *Share-Based Payment*. Prior to November 1, 2005, the Company accounted for stock options according to the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, and, therefore, no related compensation expense was recorded for awards granted with no intrinsic value. The Company adopted the modified prospective transition method provided for under SFAS 123R and, consequently, has not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with stock options recognized in the first six months of fiscal 2006 includes: 1) quarterly amortization related to the remaining unvested portion of all stock option awards granted prior

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

to November 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and 2) quarterly amortization related to all stock option awards granted on or subsequent to November 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

The compensation expense and related income tax benefit recognized in the Company's consolidated financial statements for stock options and restricted stock awards were as follows:

	<u>Three Months Ended</u> <u>April 30, 2006</u>	(In millions)	<u>Six Months Ended</u> <u>April 30, 2006</u>
Selling, general and administrative expenses	\$ 3.1		\$ 7.9
Cost of products sold	0.1		0.1
Research and development expense	0.1		0.2
Capitalized in inventory	0.3		0.6
Total compensation expense	<u>\$ 3.6</u>		<u>\$ 8.8</u>
Related income tax benefit	<u>\$ 0.7</u>		<u>\$ 2.1</u>

Cash received from options exercised under all share-based payment arrangements for the three and six months ended April 30, 2006, was \$0.4 million and \$2.5 million, respectively.

The Company continues to estimate the fair value of each option award on the date of grant using the Black-Scholes option valuation model. Groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Previously, under SFAS No. 123, the Company did not utilize separate employee groupings in the determination of option values. The Company now estimates option forfeitures based on historical data for each employee grouping and adjusts the rate to expected forfeitures periodically. The adjustment of the forfeiture rate will result in a cumulative catch-up adjustment in the period the forfeiture estimate is changed.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

**Capital Resources and Liquidity**

**Second Quarter Highlights:**

- Operating cash flow \$45.4 million vs. \$42.9 million in the second quarter of fiscal 2005.
- Cash payments for acquisitions totaled \$6.5 million.
- Expenditures for purchases of property, plant and equipment (PP&E) \$39.6 million vs. \$27.2 million in the second quarter of 2005.

**Six-Month Highlights:**

- Operating cash flow \$78.5 million vs. \$78.7 million in the first half of 2005.
- Cash payments for acquisitions totaled \$61.2 million.
- Expenditures for purchases of PP&E \$85.6 million vs. \$38.8 million in the first half of 2005.

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

	<u>April 30, 2006</u>	<u>October 31, 2005</u>
Cash and cash equivalents	\$ 16.6	\$ 30.8
Total assets	\$ 2,290.8	\$ 2,179.8
Working capital	\$ 196.7	\$ 186.1
Total debt	\$ 756.8	\$ 704.9
Stockholders' equity	\$ 1,330.3	\$ 1,273.2
Ratio of debt to equity	0.57:1	0.55:1
Debt as a percentage of total capitalization	36%	36%
Operating cash flow - twelve months ended	\$ 183.6	\$ 183.8

**Operating Cash Flow:** Cash flow provided from operating activities continues as Cooper's major source of liquidity, totaling \$78.5 million in the first half of fiscal 2006 and \$183.6 million over the twelve-month period ended April 30, 2006.

Working capital increased \$10.6 million in the first half of fiscal 2006 due to an increase of \$29 million in inventory, a decrease of \$0.2 million in current accrued liabilities and accounts payable, and a decrease in short-term debt of \$13.7 million. This activity was partially offset as cash decreased \$14.3 million, as we continue to improve our cash management, receivables decreased \$4.4 million and current deferred tax assets and other decreased \$13.6 million. The increase in working capital is primarily due to the amendment of Cooper's credit facility, which reduced the current portion of debt and the build up of inventory in anticipation of new product launches and to provide stock while CVI consolidates distribution centers.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

At the end of the first half of fiscal 2006, Cooper's inventory months on hand (MOH) increased to 8.0 from 7.1 in last year's second quarter as inventory was built to support new product launches and to provide stock while CVI consolidates distribution centers. Also, our days sales outstanding (DSO) decreased to 61 days from 62 days in last year's second quarter. For comparability, these DSO's and MOH's are pro forma, calculated including Ocular's results of operations for the entire first fiscal half of 2005. Based on our experience and knowledge of our customers and our analysis of inventoried products and product levels, we believe that our accounts receivable and inventories are recoverable.

**Investing Cash Flow:** The cash outflow of \$146.8 million from investing activities was driven by payments of \$61.2 million for acquisitions, primarily the purchase of Inlet and NeoSurg, and capital expenditures of \$85.6 million, used primarily to expand manufacturing capacity, combine distribution centers and continue the rollout of new information systems.

**Financing Cash Flow:** The cash inflow of \$53.9 million from financing activities was driven by proceeds from long-term debt of \$662.8 million, net proceeds from short-term debt of \$11.7 million, \$1.5 million from excess tax benefits from share-based compensation arrangements, and \$2.5 million from the exercise of stock options, partially offset by repayment of debt of \$622.7 million, payment of debt acquisition costs of \$0.6 million and dividends on our common stock of \$1.3 million paid in the first six months of fiscal 2006.

**Estimates and Critical Accounting Policies**

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

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

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

- Allowance for doubtful accounts – Our reported balance of accounts receivable, net of the allowance for doubtful accounts, represents our estimate of the amount that ultimately will be realized in cash. We review the adequacy of our allowance for doubtful accounts on an ongoing basis, using historical payment trends and the age of the receivables and knowledge of our individual customers. When our analyses indicate, we increase or decrease our allowance accordingly. However, if the financial condition of our customers were to deteriorate, additional allowances may be required. While estimates are involved, bad debts historically have not been a significant factor given the diversity of our customer base, well established historical payment patterns and the fact that patients require satisfaction of healthcare needs in both strong and weak economics.
- Net realizable value of inventory – In assessing the value of inventories, we must make estimates and judgments regarding aging of inventories and other relevant issues potentially affecting the saleable condition of products and estimated prices at which those products will sell. On an ongoing basis, we review the carrying value of our inventory, measuring number of months on hand and other indications of salability, and reduce the value of inventory if there are indications that the carrying value is greater than market. 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 third fiscal quarter 2005, and our analysis indicated that we have no goodwill impairment.

The FASB Statement No. 142 goodwill impairment test is a two-step process. Initially, we compare the book value of net assets to the fair value of each reporting unit that has goodwill assigned to 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.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

Our reporting units are the same as our business segments – CooperVision and CooperSurgical – reflecting the way that we manage our business. Our most recent estimate of fair value, at the time of our May 1, 2005, review and using several valuation techniques including assessing industry multiples, for CooperVision ranged from \$1.9 billion to \$3.6 billion compared to a carrying value of \$1.7 billion and for CooperSurgical 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 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**

Effective November 1, 2005, the Company began recording compensation expense associated with stock options and other forms of equity compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), as interpreted by SEC Staff Accounting Bulletin No. 107. Prior to November 1, 2005, the Company accounted for stock options according to the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations, and, therefore, no related compensation expense was recorded for awards granted with no intrinsic value. The Company adopted the modified prospective transition method provided for under SFAS 123R, and, consequently, has not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with stock options recognized in the first quarter of fiscal 2006 includes: 1) quarterly amortization related to the remaining unvested portion of all stock option awards granted prior to November 1, 2005, based on the grant date fair value estimated in accordance with the original



THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

provisions of SFAS 123, *Accounting for Stock-Based Compensation*; and 2) quarterly amortization related to all stock option awards granted on or subsequent to November 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

As a result of the adoption of SFAS 123R, the Company's financial results were lower than under the Company's previous accounting method for share-based compensation, by the following amounts:

	<u>Three Months Ended</u> <u>April 30, 2006</u>	(In millions)	<u>Six Months Ended</u> <u>April 30, 2006</u>
Income before income taxes	\$ 3.3		\$ 8.2
Net income	\$ 2.6		\$ 6.1

Prior to the adoption of SFAS 123R, the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Condensed Consolidated Statement of Cash Flows. SFAS 123R requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised (excess tax benefits) be classified as financing cash flows. The Company has sufficient net operating loss carryforwards to generally eliminate cash payments for income taxes. The Company recognized \$1.5 million of excess tax benefits as financing cash flows.

### Risk Management

We are exposed to risks caused by changes in foreign exchange, principally our pound sterling and euro denominated debt and receivables and from operations in foreign currencies. We have taken steps to minimize our balance sheet exposure. We are also exposed to risks associated with changes in interest rates, as the interest rate on our revolver and term loan debt under the KeyBank credit agreement varies with the London Interbank Offered Rate. The significant increase in debt following the acquisition of Ocular has significantly increased the risk associated with changes in interest rates. We have decreased this interest rate risk by hedging about \$525 million of variable rate debt effectively converting it to fixed rate debt for periods of up to three years.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Continued

As of April 30, 2006, \$525 million of outstanding interest rate swaps are actively hedging outstanding debt. On February 7, 2006, a \$100 million swap contract expired, and a new \$125 million contract took effect resulting in \$525 million of outstanding interest rate swaps.

**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 wrote off \$4.1 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 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 of the Company's domestic assets. The credit agreement:

- Limits Cooper's debt (total funded indebtedness) to a maximum of 50% of its total capitalization, which is defined as the sum of total debt plus stockholders' equity.
- 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 from December 12, 2005 through October 30, 2006, 3.0 to 1 from October 31, 2006 through October 30, 2007, 2.5 to 1 from October 31, 2007 through October 30, 2009, and 2.0 to 1 thereafter.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES  
Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations, Concluded

The changes to our contractual obligations and commercial commitments, including the amended and restated credit facility are:

Payments Due by Fiscal Period

	<u>2006</u>	<u>2007 &amp; 2008</u>	<u>2009 &amp; 2010</u>	<u>2011 &amp; Beyond</u>
			(\$ in millions)	
Long-term debt	\$0.3	\$ 88.0	\$ 141.5	\$ 498.8

**Trademarks**

Proclear® and Biomedics® are registered trademarks of The Cooper Companies, Inc., its affiliates and/or subsidiaries and are italicized in this report. PC Technology and Biofinity are trademarks of The Cooper Companies, Inc., its affiliates and/or subsidiaries and are italicized in this report.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

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

**Item 4. Controls and Procedures**

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

In conjunction with the close of each fiscal quarter, the Company conducts a review and evaluation, under the supervision and with the participation of the Company’s Management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. The Company’s Chief Executive Officer and Chief Financial Officer, based upon their evaluation as of April 30, 2006, the end of the fiscal quarter covered in this report, concluded that the Company’s disclosure controls and procedures were effective at the reasonable assurance level.

As of April 30, 2006, there has been no change in the Company’s internal control over financial reporting during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

**Item 1. Legal Proceedings**

Levine v. The Cooper Cos., Inc., et.al.

On February 15, 2006, a putative securities class action lawsuit was filed in the United States District Court for the Central District of California, Case No. SACV-06-169 CJC, against the Company, A. Thomas Bender, its Chairman of the Board, President and Chief Executive Officer and a director, Robert S. Weiss, its Executive Vice President, Chief Operating Officer and a director, and John D. Fruth, a director. The complaint was filed on behalf of purchasers of the Company's securities between July 29, 2004 and November 21, 2005, including persons who received Company securities in exchange for their shares of Ocular Sciences, Inc. in the January 2005 merger pursuant to which the Company acquired Ocular.

The complaint purports to allege violations of Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 by, among other things, contending that: (a) the Company improperly accounted for assets acquired in the Ocular merger by misclassifying intangible assets as tangible ones; (b) the Company's earnings guidance reflected the improper accounting for intangible assets and was inflated by (among other things) the amount of the understated amortization expense; (c) the merger synergies touted by defendants were unrealistic and were lacking in any reasonable basis; (d) Ocular had "stuffed the channel" with its *Biomedics* products so that inventories would have to be sold off before a material amount of new sales could reasonably be expected, which would have a materially negative impact on the Company's revenues; (e) the Company's lack of a two-week silicone hydrogel product would prevent it from meeting its aggressive growth targets for 2005 and beyond; and (f) CooperVision and Ocular competed in the two-week lens market, which negatively impacted the Company's ability to realize synergies from the Ocular acquisition. This lawsuit, which is in a very preliminary stage, seeks unspecified damages.

Shortly after the filing of the Levine lawsuit, two similar putative class action lawsuits also were filed in the United States District Court for the Central District of California, Case Nos. SACV-06-306 CJC and SACV-06-331 CJC. On May 19, 2006, the Court consolidated all three actions under the heading *In re Cooper Companies, Inc. Securities Litigation* and selected a lead plaintiff and lead counsel pursuant to the provisions of the Private Securities Litigation Reform Act of 1995, 15 U.S.C. § 78u-4. The lead plaintiff is in the process of preparing a consolidated complaint. The Company intends to vigorously defend these matters.

In re Cooper Companies, Inc. Derivative Litigation

On March 17, 2006, Eben Brice filed a purported shareholder derivative complaint in the United States District Court for the Central District of California, Case No. 8:06-CV-00300-CJC-RNB, against A. Thomas Bender, the Company's Chairman of the Board, President and Chief Executive Officer, Robert S. Weiss, its Executive Vice President, Chief Operating Officer and a director and directors John D. Fruth, Michael H. Kalkstein, Moses Marx, Donald Press, Steven Rosenberg, Allan E. Rubenstein and Stanley Zinberg (the "Brice Action"). The Company is named as a "nominal defendant." The complaint purports to allege causes of action for breach of fiduciary duty, abuse of control, gross mismanagement, constructive fraud, and unjust enrichment, and largely repeats the allegations in the class action securities case, described above. However, as stated above, the complaint is derivative in nature and does not seek monetary damages from the Company.

Since the filing of the first purported shareholder derivative lawsuit, three similar purported shareholder derivative suits were filed in the United States District Court for the Central District of California, Case Nos. Case Nos. 8:06-cv-00434-CJC-RNB, 8:06-cv-00471-CJC-RNB, and Case Nos. 8:06-cv-00508-DOC-RNB. In addition, three similar purported shareholder derivative actions were filed and are currently pending in the Superior Court for the State of California for the County of Alameda, Case Nos. RG06260748, RG06266913, and RG6261152. These six additional purported derivative actions repeat many of the allegations in the Brice Action. However, some of these derivative lawsuits also purport to state causes of action for violation of California's insider trading statute, waste of corporate assets, breach of contract, and for contribution. These additional actions are asserted against the same defendants as in the Brice Action, and some of the plaintiffs also name as defendants Edgar J. Cummins, a former director, Jody S. Lindell, a current director, Gregory Fryling, the President and Chief Operating Officer of CooperVision, Carol R. Kaufman, the Company's Senior Vice President of Legal Affairs, Secretary and Chief Administrative Officer, B. Norris Battin, the Company's Vice President of Investor Relations and Communications, Paul L. Remmell, Chief Operating Officer and President of CooperSurgical, Jeffrey A. McLean, President, U.S. Operations of CooperVision, and Nicholas J. Pichotta, Chief Executive Officer of CooperSurgical.

All of the purported shareholder derivative actions are presently in preliminary procedural phases, and the Company and the individual defendants have yet to respond to any of the complaints. All of the actions are derivative in nature and do not seek monetary damages from the Company.

Bausch & Lomb Incorporated Litigation

On October 5, 2004, Bausch & Lomb Incorporated (Bausch & Lomb) filed a lawsuit against Ocular Sciences, Inc. in the U.S. District Court for the Western District of New York alleging that its *Biomedics*® toric soft contact lens and its private label equivalents infringe Bausch & Lomb's U.S. Patent No. 6,113,236 relating to toric contact lenses having optimized thickness profiles. The complaint seeks an award of damages, including multiple damages, attorneys' fees and costs and an injunction preventing the alleged infringement. The parties have filed claim construction briefs for the court to consider for its Markman order, and fact discovery substantially concluded during the first quarter of fiscal 2006. Based on our review of the complaint and the patent, as well as other relevant information obtained in discovery, we believe this lawsuit is without merit and plan to continue to pursue a vigorous defense.

## [Table of Contents](#)

### United States Tax Court Litigation

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

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

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

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

### CIBA Vision Litigation

On April 10, 2006, CooperVision filed a lawsuit against CIBA Vision (Ciba) in the United States District Court for the Eastern District of Texas alleging that Ciba is infringing United States Patent Nos. 6,431,706, 6,923,538, 6,467,903, 6,857,740 and 6,971,746 by, among other things, making, using, selling and offering to sell its O2Optix™ line of contact lenses. On June 5, 2006, Ciba filed an answer denying infringement and asserting certain affirmative defenses. This lawsuit is in a very preliminary stage. No scheduling order has been entered and no discovery has occurred.

## [Table of Contents](#)

On April 11, 2006, CooperVision filed a lawsuit against CIBA Vision (Ciba) in the United States District Court for the District of Delaware seeking a judicial declaration that CooperVision's *Biofinity* line of silicone hydrogel contact lenses does not infringe any valid and enforceable claims of United States Patent Nos. 5,760,100, 5,776,999, 5,789,461, 5,849,811, 5,965,631 and 6,951,894. Ciba has not yet filed a response to this suit.

### **Item 1A. Risk Factors**

Our business faces significant risks. These risks include those described in our periodic filings and may include additional risks and uncertainties not presently known to us or that we currently deem immaterial. Our business, financial condition and results of operations could be materially adversely affected by any of these risks, and the trading prices of our common stock or convertible debentures could decline. The risk factors set forth below were disclosed under "Risk Factors" in our Annual Report on Form 10-K for fiscal year ended October 31, 2005, as updated by the "Risk Factors" section in our Quarterly Report on Form 10-Q for the quarter ended January 31, 2006, and have been modified to reflect changes since the first quarter filing. To understand the risks to our business, this information should be read in conjunction with the other risk factors facing the Company that are set forth in the 2005 Form 10-K and first quarter 2006 Form 10-Q, as well as the other information contained in this report and the 2005 Form 10-K.

#### **Risks Relating to Our Business**

**We operate in the highly competitive healthcare industry and there can be no assurance that we will be able to compete successfully.**

Each of our businesses operates within a highly competitive environment. In our soft contact lens segment, CVI faces intense competition from competitors' products, including newer silicone hydrogel contact lenses, and may face increasing competition as other new products enter the market. Our major competitors in the contact lens business have substantially greater financial resources, larger research and development budgets, larger sales forces, greater market penetration and larger manufacturing volumes than CVI.

Our major competitors in the specialty contact lens business offer competitive products, newer materials plus a variety of other eye care products, including lens care products and ophthalmic pharmaceuticals, which may give them a competitive advantage in marketing their lenses. Moreover, newer silicone hydrogel lenses are gaining market acceptance in the specialty lens business and we are not yet able to manufacture and market our own competitive silicone hydrogel specialty products, which could erode our specialty lens market share and margins.

The market for our non-specialty, commodity contact lenses is also intensely competitive and is characterized by declining prices for many older product lines and growing demand for newer silicone hydrogel based products. Our ability to respond to these competitive pressures will depend on our ability to decrease our costs and maintain gross margins and operating results, to successfully introduce new products, including our own silicone hydrogel products, on a timely basis in markets such as the United States, Europe and Japan, and to achieve manufacturing efficiencies and sufficient manufacturing capacity for such products. Any significant decrease in our costs per lens will depend, in part, on our ability to increase sales volume and production capacity. Our failure to respond to competitive pressures in a timely manner could have a material adverse effect on our business, financial condition and results of operations.

## [Table of Contents](#)

To a lesser extent, CVI also competes with manufacturers of eyeglasses and other forms of vision correction including ophthalmic surgery. There can be no assurance that we will not encounter increased competition in the future, or that a successful entry into CVI's higher-margin specialty lens segments by a larger competitor would not have a material adverse effect on our business, financial condition or results of operations.

In the women's healthcare segment, competitive factors include technological and scientific advances, product quality, price and effective communication of product information to physicians and hospitals. CooperSurgical competes with a number of manufacturers in each of its niche markets, some of which have substantially greater financial and personnel resources and sell a much broader range of products, which may give them an advantage in marketing competitive products.

### **If our products are not accepted by the market, we will not be able to sustain or expand our business.**

Certain of our proposed products have not yet been clinically tested or commercially introduced, and we cannot assure you that any of them will achieve market acceptance or generate operating profits. We have not commercially marketed many of our planned new products, such as certain of our planned silicone hydrogel contact lens products and new contact lens products containing our patented phosphorilcoline (PC) technology and have limited manufacturing capacity for our silicone hydrogel product recently launched in Europe. Market acceptance and customer demand for these products are uncertain. The development of a market for our products may be influenced by many factors, some of which are out of our control, including:

- limited product availability due to manufacturing constraints;
- acceptance of our products by eye care and women's healthcare practitioners;
- the cost competitiveness of our products;
- consumer reluctance to try and use a new product;
- regulatory requirements;
- the earlier release of competitive products, such as silicone hydrogel products into the market by our competitors; and
- the emergence of newer and more competitive products.

### **If we fail to adequately protect our intellectual property, our business could suffer.**

We consider our intellectual property rights, including patents, trademarks and licensing agreements, to be an integral component of our business. We attempt to protect our intellectual



## [Table of Contents](#)

property rights through a combination of patent, trademark, copyright and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements. Our failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition.

We may also seek to enforce our intellectual property rights on others through litigation. *See* Item 1 — Legal Proceedings (CIBA Vision). Our claims, even if meritorious, may be found invalid or inapplicable to a party we believe infringes or has misappropriated our intellectual property rights. In addition, litigation can:

- be expensive and time consuming to prosecute or defend;
- result in a finding that we do not have certain intellectual property rights or that such rights lack sufficient scope or strength;
- divert management’s attention and resources; or
- require us to license our intellectual property.

We have applied for patent protection in the United States and other foreign jurisdictions relating to certain existing and proposed processes and products. We cannot assure you that any of our patent applications will be approved. Patent applications in the United States are maintained in secrecy for a period of time, which may last until patents are issued, and since publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries by several months, we cannot be certain that we will be the first creator of inventions covered by any patent application we make or the first to file patent applications on such inventions. The patents we own could be challenged, invalidated or circumvented by others and may not be of sufficient scope or strength to provide us with any meaningful protection or commercial advantage. Further, we cannot assure you that we will have adequate resources to enforce our patents.

We also rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. To protect our trade secrets and other proprietary information, we require employees, consultants, advisors and collaborators to enter into confidentiality agreements. We cannot assure you that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. If we are unable to maintain the proprietary nature of our technologies, we could lose competitive advantages and be materially adversely affected.

The laws of certain foreign countries in which we do business or contemplate doing business in the future do not recognize intellectual property rights or protect them to the same extent as do the laws of the United States. Adverse determinations in a judicial or administrative proceeding could prevent us from manufacturing and selling our products or prevent us from stopping others from manufacturing and selling competing products, and thereby have a material adverse affect on our business, financial condition and results of operations.

**Our intellectual property could be subject to claims of infringement.**

Our competitors in both the U.S. and foreign countries, many of which have substantially greater resources and have made substantial investments in competing technologies, may have applied for or obtained, or may in the future apply for and obtain, patents that will prevent, limit or otherwise interfere with our ability to make and sell our existing and planned products. Claims that our products infringe the proprietary rights of others often are not asserted until after commencement of commercial sales incorporating our technology.

Significant litigation regarding intellectual property rights exists in our industry. Third parties have made, and it is possible that they will make in future, claims of infringement against us or our contract manufacturers in connection with their use of our technology. *See* Item 1 — Legal Proceedings (Bausch & Lomb, CIBA Vision). Any claims, even those without merit, could:

- be expensive and time consuming to defend;
- cause us to cease making, licensing or using products that incorporate the challenged intellectual property;
- require us to redesign or reengineer our products, if feasible;
- divert management’s attention and resources; or
- require us to enter into royalty or licensing agreements in order to obtain the right to use a necessary product, component or process.

Any royalty or licensing agreement, if required, may not be available to us on acceptable terms or at all. A successful claim of infringement against us or our contract manufacturers in connection with the use of our technology, in particular if we are unable to manufacture or sell any of our planned products in any major market, could adversely affect our business.

**We face risks in connection with securities litigation.**

The Company and three of its directors and officers have been named in several putative securities class action lawsuits and its directors and certain of its officers have been named in putative derivative lawsuits, the nature and status of which are described in “Item 1 — Legal Proceedings.” The securities actions, which are at a very preliminary stage and have been consolidated into a single action, seek unspecified damages from the Company, and we are unable to estimate the range of potential losses that would be incurred if the plaintiffs in this action were to prevail, or to determine the total effect that it may have on our results of operations, financial position and cash flows. However, any settlement or judgment on the merits of this action could have a material adverse effect on the Company’s liquidity, results of operations and financial condition. In addition, securities litigation, irrespective of its merits, is costly to defend and diverts management’s attention and resources, which could adversely affect our business.

The purported derivative lawsuits, which are at a very preliminary stage, do not seek damages from the Company. However, derivative litigation is costly, and these lawsuits may divert Management’s attention and resources, which could adversely affect our business.

## [Table of Contents](#)

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

The 2006 Annual Meeting of Stockholders was held on March 21, 2006.

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

<u>Director</u>	<u>Shares For</u>	<u>Shares Against</u>
A. Thomas Bender	36,493,445	2,979,056
John D. Fruth	36,369,650	3,102,851
Michael H. Kalkstein	34,740,751	4,731,750
Jody S. Lindell	39,181,730	290,771
Moses Marx	36,494,410	2,978,091
Donald Press	34,733,443	4,739,058
Steven Rosenberg	36,359,293	3,113,208
Allan E. Rubenstein, M.D.	34,739,308	4,733,193
Robert S. Weiss	36,478,695	2,993,806
Stanley Zinberg, M.D.	39,037,597	434,904

Stockholders ratified the appointment of KPMG LLP as Cooper's independent certified public accountant for the fiscal year ending October 31, 2006. A total of 36,559,641 shares were voted in favor of the ratification, 2,886,322 shares were voted against it and 26,538 shares abstained.

Stockholders adopted Cooper's Second Amended and Restated 2001 Long-Term Incentive Plan. A total of 22,678,203 shares were voted in favor of the adoption, 12,067,967 shares were voted against it and 59,559 shares abstained.

Stockholders also approved the adoption of the 2006 Long-Term Incentive Plan for Non-Employee Directors. A total of 25,965,651 shares were voted in favor of the adoption, 8,759,669 shares were voted against it and 80,409 shares abstained.

## [Table of Contents](#)

### **Item 6. Exhibits**

(a) Exhibits.

<b>Exhibit Number</b>	<b>Description</b>
10.1	The Cooper Companies, Inc. Amended and Restated 2006 Incentive Payment Plan as incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 24, 2006.
10.2	The Cooper Companies, Inc. Second Amended & Restated 2001 Long-Term Incentive Plan.
10.3	The Cooper Companies, Inc. 2006 Long-Term Incentive Plan for Non-Employee Directors.
11*	Calculation of Earnings Per Share
31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
32.2	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350

\* The information called for in this Exhibit is provided in Footnote 7 to the Consolidated Condensed Financial Statements in this report.

SIGNATURE

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

The Cooper Companies, Inc.  
(Registrant)

Date: June 9, 2006

/s/ Rodney E. Folden  
Rodney E. Folden  
Corporate Controller  
(Principal Accounting Officer)

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Index of Exhibits

<u>Exhibit No.</u>		<u>Page No.</u>
10.1	The Cooper Companies, Inc. Amended and Restated 2006 Incentive Payment Plan as incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 24, 2006.	
10.2	The Cooper Companies, Inc. Second Amended & Restated 2001 Long-Term Incentive Plan.	
10.3	The Cooper Companies, Inc. 2006 Long-Term Incentive Plan for Non-Employee Directors.	
11*	Calculation of Earnings Per Share	
31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934	
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934	
32.1	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350	
32.2	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350	

\* The information called for in this Exhibit is provided in Footnote 7 to the Consolidated Condensed Financial Statements in this report.

**THE COOPER COMPANIES, INC.  
SECOND AMENDED & RESTATED  
2001 LONG TERM INCENTIVE PLAN**

**SECTION 1. PURPOSE; DEFINITIONS.**

The 2001 Long Term Incentive Plan was originally adopted by the Board of Directors on December 14, 2000 and approved by the stockholders of the Company on March 28, 2001. It was amended and restated in 2002, and the Amended and Restated 2001 Long-Term Incentive Plan, was adopted by the Company's Board of Directors on December 16, 2003 and approved by the stockholders of the Company on March 23, 2004. The Plan was subsequently amended by the Board of Directors on March 22, 2005 and December 9, 2005. The following is the Second Amended & Restated 2001 Long-Term Incentive Plan, incorporating the amendments on March 22, 2005 and December 9, 2005, as well as an amendment in order to (i) increase the number of shares available for issuance under the Plan and (ii) increase the number of shares available for grant as Restricted Stock under the Plan approved by the Company's stockholders on March 21, 2006. The purpose of the Plan is to enable the Company to attract, retain and reward key employees and consultants to the Company and its Subsidiaries and Affiliates, and strengthen the mutuality of interests between such key employees, consultants and the Company's stockholders, by offering such key employees and consultants performance-based incentive equity interests in the Company.

For purposes of the Plan, the following terms shall be defined as set forth below:

- (a) "Affiliate" means any entity other than the Company and its Subsidiaries that is designated by the Board as a participating employer under the Plan, provided that the Company directly or indirectly owns at least 20% of the combined voting power of all classes of stock of such entity or at least 20% of the ownership interests in such entity.
- (b) "Board" means the Board of Directors of the Company.
- (c) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.
- (d) "Committee" shall mean the Board or, if the Board delegates its power and authority to administer this Plan to a committee of the Board described in this Section 2 of the Plan, such committee.
- (e) "Company" means The Cooper Companies, Inc., a corporation organized under the laws of the State of Delaware, or any successor corporation.
- (f) "Disability" means disability as determined under procedures established by the Committee for purposes of this Plan.
- (g) "Early Retirement" means retirement with the express consent of the Company for purposes of this Plan at or before the time of such retirement, from consulting or active employment with the Company and any Subsidiary or Affiliate pursuant to the early retirement provisions of the applicable pension plan of such entity.
- (h) "Fair Market Value" means, as of any given date, unless otherwise determined by the Committee in good faith, the closing price of the Stock on the New York Stock Exchange as reported on <http://finance.yahoo.com> or, if no such sale of Stock occurs on the New York Stock Exchange on such date, the fair market value of the Stock as determined by the Committee in good faith.

(i) "Grant" means an instrument or agreement evidencing an option, or SAR, granted hereunder, which may, but need not be, acknowledged by the recipient thereof.

(j) "Incentive Stock Option" or "ISO" means any Stock Option intended to be and designated as an "Incentive Stock Option" within the meaning of Section 422 of the Code.

(k) "Non-Employee Director" shall have the meaning set forth in Rule 16b-3 as promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, or any successor definition adopted by the Commission.

(l) "Non-Qualified Stock Option" or "NQSO" means any Stock Option that is not an Incentive Stock Option.

(m) "Normal Retirement" means retirement from consulting or active employment with the Company and any Subsidiary or Affiliate on or after age 65.

(n) "Plan" means this Second Amended and Restated 2001 Long Term Incentive Plan, as hereinafter amended from time to time.

(o) "Restricted Stock" means an award of shares of Stock that is subject to restrictions under Section 7 below.

(p) "Retirement" means Normal or Early Retirement.

(q) "Stock" means the Common Stock, \$0.10 par value per share, of the Company.

(r) "Stock Appreciation Right" or "SAR" means the right pursuant to an award granted under Section 6 below to (a) surrender to the Company all (or a portion) of a Stock Option in exchange for an amount in any combination of cash or Common Stock equal to the difference between (i) the Fair Market Value, as of the date such Stock Option (or such portion thereof), is surrendered, of the shares of Stock covered by such Stock Option (or such portion thereof), subject, where applicable, to the pricing provisions in Section 6(b)(ii), and (ii) the aggregate exercise price of such Stock Option (or such portion thereof), or (b) to receive from the Company an amount of cash based upon the excess, if any, of the Fair Market Value of a number of shares of Stock specified in such award at the time of exercise of the right over the Fair Market Value of such number of shares of Stock on the date the right was granted.

(s) "Stock Option" or "Option" means any option to purchase shares of Stock (including Restricted Stock and Deferred Stock, if the Committee so determines) granted pursuant to Section 5 below.

(t) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50%, or more, of the total combined voting power of all classes of stock in one of the other corporations in the chain.

In addition, the term "Cause" shall have the meaning set forth in Section 5(i) below.

## **SECTION 2. ADMINISTRATION.**

The Plan shall be administered by the Board or, if the Board delegates its power and authority to administer this Plan to a committee of the Board, such committee. Any such committee shall consist solely of two or more directors appointed by and holding office at the pleasure of the Board, each of whom is a "Non-Employee Director" of the Company as defined in Rule 16b-3 and an "outside director" for purposes of Section 162(m) of the Code. If the Board delegates its power and authority to administer this Plan to a committee, the members of such



committee shall serve at the pleasure of the Board, such committee members may resign at any time by delivering written notice to the Board and vacancies in the committee may be filled by the Board.

The Committee shall have full authority to grant, pursuant to the terms of the Plan, to officers, consultants and other key employees eligible under Section 4: (i) Stock Options, (ii) Stock Appreciation Rights, and/or (iii) Restricted Stock.

In particular, the Committee shall have the authority:

(i) to select the officers, consultants and other key employees of the Company and its Subsidiaries and Affiliates to whom Stock Options, Stock Appreciation Rights, and/or Restricted Stock may from time to time be granted hereunder;

(ii) to determine whether and to what extent Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, and/or Restricted Stock, or any combination thereof, are to be granted hereunder to one or more eligible employees;

(iii) to determine the number of shares, if applicable, to be covered by each such award granted hereunder;

(iv) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, the share price and any restriction or limitation, or any vesting acceleration or waiver of forfeiture restrictions regarding any Stock Option or other award and/or the shares of Stock relating thereto, based in each case on such factors as the Committee shall determine, in its sole discretion);

(v) to determine whether and under what circumstances a Stock Option may be settled in cash and/or Restricted Stock under Section 5(k) instead of Stock;

(vi) to determine whether, to what extent and under what circumstances Option grants and/or Stock Appreciation Rights and/or other cash awards made by the Company are to be made, and operate, on a tandem basis vis a vis other awards under the Plan and/or cash awards made outside of the Plan, or on an additive basis;

(vii) to determine whether, to what extent and under what circumstances Stock and other amounts, payable with respect to an award under this Plan shall be deferred either automatically or at the election of the participant (including providing for and determining the amount (if any) of any deemed earnings on any deferred amount during any deferral period); and

(viii) to interpret the Plan and remedy any inconsistencies and ambiguities herein and between any agreement evidencing an award thereunder.

The Committee shall have the authority to adopt, alter and repeal such rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable, to interpret the terms and provisions of the Plan and any award issued under the Plan (and any agreements relating thereto), and to otherwise supervise the administration of the Plan.

All decisions made by the Committee pursuant to the provisions of the Plan shall be made in the Committee's sole discretion and shall be final and binding on all persons, including the Company and Plan participants.

### **SECTION 3. STOCK SUBJECT TO PLAN.**

The total number of shares of Stock reserved and available for distribution pursuant to stock options or other awards relating to Stock made under the Plan shall be 5,550,000 shares. Of these shares available for awards under this Plan, no more than 400,000 shall be available for distribution pursuant to Restricted Stock awards. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares. The maximum

number of shares with respect to which an employee may be granted options or Stock Appreciation Rights under this Plan during any fiscal year is 500,000. The maximum number of shares with respect to which an employee may be granted Restricted Stock under this Plan during any fiscal year is 100,000.

Subject to Section 6(b)(iv) below, if any Stock Option or Stock Appreciation Right is cancelled without having been fully exercised, or if any shares of Restricted Stock are forfeited or repurchased under Section 7(c)(iii) or any such award otherwise terminated, such shares shall again be available for distribution in connection with future awards under the Plan.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split or other change in corporate structure affecting the Stock, such substitution or adjustment shall be made in the aggregate number of shares reserved for issuance under the Plan, in the number and option price of shares subject to outstanding Options granted under the Plan, and in the number of shares and base price subject to outstanding Stock Appreciation Rights granted under the Plan, and in the number of shares subject to other outstanding awards granted under the Plan as may be determined to be appropriate by the Committee, in its sole discretion, provided that the number of shares subject to any award shall always be a whole number. Such adjusted option price shall also be used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right associated with any Stock Option. In addition, the Committee, in its sole discretion, shall determine the amount of cash to which the recipient of a Stock Appreciation Right not associated with an Option shall be entitled upon exercise so that there will be no increase or decrease in the cash to which the recipient shall be entitled upon exercise by reason of such event. In addition, in the event of any merger or other corporate transaction or event which results in shares of Stock being purchased for cash, or being exchanged for or converted into cash or the right to receive cash, the Committee, in its sole discretion, and on such terms and conditions as it deems appropriate, may provide that any Stock Option, Stock Appreciation Right, or Restricted Stock shall be converted into the right to receive an amount of cash equal to the amount of cash, if any, that would have been received, in the event of such merger or corporate transaction or event, if such Stock Option, Stock Appreciation Right, or Restricted Stock had been fully exercisable or payable, or vested and had been exercised or paid immediately prior to such merger or other corporate transaction or event to the extent of the cash value thereof, and, upon such conversion, such Stock Option, Stock Appreciation Right, or Restricted Stock (including any such Stock Option, Stock Appreciation Right, or Restricted Stock which, under the terms of such merger or other corporate transaction or event, would have no cash value) shall be cancelled.

#### **SECTION 4. ELIGIBILITY.**

Officers, consultants and other key employees of the Company and its Subsidiaries and Affiliates (but excluding members of the Committee and any person who serves only as a director) who are responsible for or contribute to the management, growth and/or profitability of the business of the Company and/or its Subsidiaries and Affiliates are eligible to be granted awards under the Plan.

#### **SECTION 5. STOCK OPTIONS.**

Stock Options may be granted alone, in addition to or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) Non-Qualified Stock Options.

The Committee shall have the authority to grant to any optionee Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options (in each case with or without Stock Appreciation Rights); provided, however that Incentive Stock Options shall only be granted to an individual who, at the time of grant, is an employee of the Company or a Subsidiary.

Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(a) *Option Price.* The option price per share of Stock purchasable under a Stock Option shall be determined by the Committee at the time of grant but shall not be less than 100% of Fair Market Value as of the date of grant.

(b) *Option Term.* The term of each Stock Option shall be fixed by the Committee, but no Stock Option shall be exercisable more than ten years after the date the Option is granted. Additionally, no Incentive Stock Option may be granted after January 1, 2011.

(c) *Exercisability.* Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at or after grant, provided, however, that, except as provided in Section 5(f), (g) and (h), unless otherwise determined by the Committee at or after grant, no Stock Option shall be exercisable prior to the first anniversary date of the granting of the Option. If the Committee provides, in its sole discretion, that any Stock Option is exercisable only in installments, the Committee may waive such installment exercise provisions at any time at or after grant in whole or in part, based on such factors as the Committee shall determine, in its sole discretion.

(d) *Method of Exercise.* Subject to whatever installment exercise provisions apply under Section 5(c), Stock Options may be exercised in whole or in part at any time during the option period, by giving written notice of exercise to the Company specifying the number of shares to be purchased.

Such notice shall be accompanied by payment in full of the purchase price, either by check, wire transfer, money order or such other instrument of direct payment as the Committee may accept. Except as otherwise prohibited by law, as determined by the Committee, in its sole discretion, at or after grant, payment in full or in part may also be made (i) in the form of Stock subject to an award (based, in each case, on the Fair Market Value of the Stock on the date the option is exercised, as determined by the Committee); provided, however, that, in the case of an Incentive Stock Option, the right to make a payment in the form of already owned shares may be authorized only at the time the option is granted or (ii) through the delivery of a notice that the optionee has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price, provided that payment of such proceeds is made to the Company prior to the delivery of any shares of Stock by the Company. The Company shall not make loans to any option holder for payment of the purchase price of stock options under this Section.

No shares of Stock shall be issued until full payment therefor has been made. An optionee shall generally have the rights to dividends or other rights of a stockholder with respect to shares subject to the Option when the optionee has given written notice of exercise, has paid in full for such shares, and, if requested, has given the representation described in Section 9(a).

(e) *Transferability of Options.* No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution, and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee or by his guardian or legal representative. Notwithstanding the foregoing, a Non-Qualified Stock Option may be transferred to, exercised by and paid to a trust in which the optionee has a fifty percent or more interest or a foundation which the optionee controls the management of the assets, provided that (i) the optionee receives no consideration for such transfer, and (ii) the transferee receives the Non-Qualified Stock Option subject to the same restrictions imposed upon the transferor and pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receives evidence satisfactory to it that the trust is and shall remain under the control of the optionee and that the transfer is being made for estate and/or tax planning purposes and on a basis consistent with the Company's lawful issue of securities.

(f) *Termination by Death.* Subject to Section 5(j), if an optionee's employment by or consultancy with the Company and any Subsidiary or Affiliate terminates by reason of death, any Stock Option held by such optionee may thereafter be exercised, to the extent such option was exercisable at the time of death or on such accelerated basis as the Committee may determine at or after grant (or as may be determined in accordance with procedures established by the Committee), by the legal representative of the estate or by the legatee of the optionee under the will of the optionee, for a period of three years (or such other period as the Committee may specify at grant) from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.

(g) *Termination by Reason of Disability.* Subject to Section 5(j), if an optionee's employment by or consultancy with the Company and any Subsidiary or Affiliate terminates by reason of Disability, any Stock Option held by such optionee may thereafter be exercised by the optionee, to the extent it was exercisable at the time of termination or on such accelerated basis as the Committee may determine at or after grant (or as may be determined in accordance with procedures established by the Committee), for a period of three years (or such other period as the Committee may specify at grant) from the date of such termination of employment or consultancy or until the expiration of the stated term of such Stock Option, whichever period is the shorter; provided, however, that, if the optionee dies within such three-year period (or such other period as the Committee shall specify at grant), any unexercised Stock Option held by such optionee shall thereafter be exercisable to the extent to which it was exercisable at the time of death for a period of twelve months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. In the event of termination of employment by reason of Disability, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Non-Qualified Stock Option.

(h) *Termination by Reason of Retirement.* Subject to Section 5(j), if an optionee's employment by or consultancy with the Company and any Subsidiary or Affiliate terminates by reason of Normal or Early Retirement, any Stock Option held by such optionee may thereafter be exercised by the optionee, to the extent it was exercisable at the time of such Retirement or on such accelerated basis as the Committee may determine at or after grant (or as may be, determined in accordance with procedures established by the Committee), for a period of three years (or such other period as the Committee may specify at grant) from the date of such termination of employment or consultancy or the expiration of the stated term of such Stock Option, whichever period is the shorter; provided, however, that, if the optionee dies within such three-year period (or such other period as the Committee may specify at grant), any unexercised Stock Option held by such optionee shall thereafter be exercisable, to the extent to which it was exercisable at the time of death, for a period of twelve months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. In the event of termination of employment by reason of Retirement, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, the option will thereafter be treated as a Non-Qualified Stock Option.

(i) *Other Termination.* Unless otherwise determined by the Committee (or pursuant to procedures established by the Committee) at or after grant, if an optionee's employment by or consultancy with the Company and any Subsidiary or Affiliate terminates for any reason other than death, Disability or Normal or Early Retirement, the Stock Option shall thereupon terminate, except that such Stock Option may be exercised for the lesser of three months or the balance of such Stock Option's term if the optionee is involuntarily terminated by the Company and any Subsidiary or Affiliate without Cause. For purposes of this Plan, "Cause" means the conviction of, or plea of nolo contendere to a felony by the participant, or a participant's willful misconduct or dishonesty, any of which is directly and materially harmful to the business or reputation of the Company or any Subsidiary or Affiliate.

(j) *Incentive Stock Options.* Anything in the Plan to the contrary notwithstanding, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of the optionee(s) affected, to disqualify any Incentive Stock Option under such Section 422.

To the extent required for “incentive stock option” status under Section 422(b)(7) of the Code (taking into account applicable Internal Revenue Service regulations and pronouncements), the Plan shall be deemed to provide that the aggregate Fair Market Value (determined as of the time of grant) of the stock with respect to which Incentive Stock Options are exercisable for the first time by the optionee during any calendar year under the Plan and/or any other stock option plan of the Company or any Subsidiary or parent corporation (within the meaning of Section 424 of the Code) after 1986 shall not exceed \$100,000. If the aggregate Fair Market Value exceeds \$100,000, then those options in excess of \$100,000 will not be treated as ISOs. Those shares not treated as ISOs will be taxed at ordinary income rates on exercise. If Section 422 is hereafter amended to delete the requirement now in Section 422(b)(7) that the plan text expressly provide for the \$100,000 limitation set forth in Section 422(b)(7), then this paragraph of Section 5(j) shall no longer be operative.

(k) *Buyout Provisions.* The Committee may at any time offer to buyout for a payment in cash, Stock or Restricted Stock any Option previously granted, based on such terms and conditions as the Committee shall establish and communicate to the optionee at the time that such offer is made; provided, however, that unless shareholder approval is obtained the Committee shall not offer to buy out any Option the per share exercise price of which is greater than the per share Fair Market Value of a share of Stock at the time of such offer.

(l) *Settlement Provisions.* If the option agreement so provides at grant or is amended after grant and prior to exercise to so provide (with the optionee’s consent), the Committee may require that all or part of the shares to be issued with respect to the spread value of an exercised Option take the form of Restricted Stock, which shall be valued on the date of exercise on the basis of the Fair Market Value (as determined by the Committee) of such Restricted Stock determined without regard to the forfeiture restrictions involved.

(m) *10% Stockholders.* No Incentive Stock Option may be granted under this Plan to any employee who, at the time the Incentive Stock Option is granted, owns, or is considered as owning, within the meaning of Section 422 of the Internal Revenue Code, shares possessing more than ten percent (10%) of the total combined voting power or value of all classes of stock of the Company, a Subsidiary or a parent corporation (within the meaning of Section 424 of the Code) unless the option price under such Option is at one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the date such Option is granted and the duration of such Option is no more than five (5) years.

## **SECTION 6. STOCK APPRECIATION RIGHTS.**

(a) *Grant and Exercise.* Stock Appreciation Rights may be granted separately or in conjunction with all or part of any Stock Option granted under the Plan. In the case of a Non-Qualified Stock Option, such rights may be granted either at or after the time of the grant of such Stock Option. In the case of an Incentive Stock Option, such rights may be granted only at the time of the grant of such Stock Option.

Stock Appreciation Rights will be settled in shares of Common Stock to be counted in full against the number of shares remaining available for award under the Plan, regardless of the number of shares issues upon settlement.

A Stock Appreciation Right or applicable portion thereof granted with respect to a given Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option, subject to such provisions as the Committee may specify at grant where a Stock Appreciation Right is granted with respect to less than the full number of shares, covered by a related Stock Option.

A Stock Appreciation Right may be exercised by a recipient, subject to Section 6(b), in accordance with the procedures established by the Committee for such purpose. Upon such exercise, the recipient shall be entitled to receive an amount determined in the manner prescribed in Section 6(b). Stock Options relating to exercised Stock Appreciation Rights shall no longer be exercisable to the extent that the related Stock Appreciation Rights have been exercised.

(b) *Terms and Conditions.* Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

(i) Stock Appreciation Rights awarded with no associated Stock Option shall be exercisable in accordance with their terms and Stock Appreciation Rights granted in association with Stock Options shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5 and this Section 6 of the Plan. The exercise of Stock Appreciation Rights held by recipients who are subject to Section 16(b) of the Exchange Act shall comply with Rule 16b-3 thereunder, to the extent applicable;

(ii) Upon the exercise of a Stock Appreciation Right granted in association with a Stock Option, a recipient shall be entitled to receive an amount in cash and/or shares of Stock, as the Committee in its sole discretion shall determine, equal in value to the excess of the Fair Market Value of one share of Stock over the option price per share specified in the associated Stock Option multiplied by the number of shares in respect of which the Stock Appreciation Right shall have been exercised. Upon the exercise of a Stock Appreciation Right awarded with no associated Stock Option, a recipient shall be entitled to receive an amount in cash equal in value to the excess, if any, of the Fair Market Value of a number of shares of Stock specified in the award at the date of exercise of the Stock Appreciation Right over the Fair Market Value of such number of shares of Stock at the date of grant of the Stock Appreciation Right. When payment is to be made in shares, the number of shares to be paid shall be calculated on the basis of the Fair Market Value of the shares on the date of exercise. When payment is to be made in cash to a recipient subject to Section 16(b) of the Exchange Act, such amount shall be calculated on the basis of the closing price of the stock on the New York Stock Exchange during the applicable period referred to in Rule 16b-3(e) under the Exchange Act to the extent applicable;

(iii) Stock Appreciation Rights shall not be transferable by the recipient thereof otherwise than by will or by the laws of descent and distribution, and all Stock Appreciation Rights shall be exercisable, during the recipient's lifetime, only by the recipient. Notwithstanding the foregoing, Stock Appreciation Rights granted with respect to a Non-Qualified Stock Option or separately may be transferred to a trust in which the recipient has a fifty percent or more interest or a foundation which the recipient controls the management of the assets, provided that (i) the recipient received no consideration for such transfer and (ii) the transferee receives the Stock Appreciation Rights subject to the same terms and conditions imposed upon the transferor and pursuant to such other procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receives evidence satisfactory to it that the trust is and shall remain under the control of the recipient and transfer is being made for estate and/or tax planning purposes and on a basis consistent with the Company's lawful issue of securities; and

(iv) Upon the exercise of a Stock Appreciation Right, any Stock Option or part thereof to which such Stock Appreciation Right is associated shall be deemed to have been exercised for the purpose of the limitation set forth in Section 3 of the Plan on the number of shares of Stock to be issued under the Plan.

## **SECTION 7. RESTRICTED STOCK.**

(a) *Administration.* Shares of Restricted Stock may be issued either alone, in addition to or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. The Committee shall determine the eligible persons to whom, and the time or times at which, grants of Restricted Stock will be made, the number of shares to be awarded, the price to be paid by the recipient of Restricted Stock (subject to Section 7(b)), the time or times within which such awards may be subject to forfeiture, and all other terms and conditions of the awards.

The Committee may condition the grant of Restricted Stock upon the attainment of specified performance goals or other factors as the Committee may determine, in its sole discretion.

The provisions of Restricted Stock awards need not be the same with respect to each recipient.

(b) *Awards and Certificates.* The prospective recipient of a Restricted Stock Award shall not have any rights with respect to such award, unless and until such recipient has executed an agreement evidencing the award and has delivered a fully executed copy thereof to the company, and has otherwise complied with the applicable terms and conditions of such award. Each award shall be subject to the following terms and conditions:

(i) The purchase price for shares of Restricted Stock shall be equal to or greater than their par value;

(ii) Awards of Restricted Stock must be accepted within a period of sixty (60) days (or such shorter period as the Committee may specify at grant) after the award date, by executing a Restricted Stock Award agreement and paying whatever price is required under Section 7(b)(i);

(iii) Each participant receiving a Restricted Stock Award shall be issued a stock certificate in respect of such shares of Restricted Stock. Such certificate shall be registered in the name of such participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such award; and

(iv) The Committee shall require that the stock certificates evidencing such shares be held in custody by the Company until the restrictions, if any, thereon shall have lapsed, and that as a condition of any Restricted Stock Award, the participant shall have delivered a stock power, endorsed in blank, relating to the Stock covered by such award.

(c) *Restrictions and Conditions.* The shares of Restricted Stock awarded pursuant to this Section 7 shall be subject to the following restrictions and conditions.

(i) Subject to the provisions of this Plan and the award agreement, during a period set by the Committee commencing with the date of such award (the 'Restriction Period'), the participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock awarded under the Plan. Within these limits, the Committee, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part, based on service, performance and/or such other factors or criteria as the Committee may determine.

Notwithstanding the foregoing, Restricted Stock may be transferred to a trust in which the participant has a fifty percent or more interest or a foundation which the participant controls the management of the assets, provided that (i) the participant receives no consideration for such transfer and (ii) the transferee receives the Restricted Stock subject to the same restrictions imposed upon the transferor and pursuant to such other conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receives evidence satisfactory to it that the trust is and shall remain under the control of the participant and that the transfer is being made for estate and/or tax planning purposes and on a basis consistent with the Corporation's lawful issue of securities.;

(ii) Except as provided in this paragraph (ii) and Section 7(c)(i), the participant shall have, with respect to the shares of Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares and the right to receive any cash dividends. The Committee, in its sole discretion, as determined at the time of award, may permit or require the payment of cash dividends to be deferred and, if the Committee so determined, reinvested, subject to Section 9(e), in additional Restricted Stock to the extent shares are available under Section 3, or otherwise reinvested. Pursuant to Section 3 above, Stock dividends issued with respect to Restricted Stock shall be treated as additional shares of Restricted Stock that are subject to the same restrictions and other terms and conditions that apply to the shares with respect to which such dividends are issued;

(iii) Subject to the applicable provisions of the award agreement and this Section 7, upon termination of a participant's employment or consultancy with the Company and any Subsidiary or Affiliate for any reason during the Restriction Period, all shares still subject to the restriction will vest, or be forfeited, in accordance

with the terms and conditions established by the Committee at or after grant. If any Restricted Stock is forfeited, the Company shall pay to the participant (or the estate of a deceased participant) an amount equal to the price the participant paid with respect to such Restricted Stock; and

(iv) If and when the Restriction Period expires without a prior forfeiture of the Restricted Stock subject to such Restriction Period, certificates for an appropriate number of unrestricted shares shall be delivered to the participant promptly.

#### **SECTION 8. AMENDMENTS AND TERMINATION.**

The Board may amend, alter, or discontinue the Plan, but no amendment, alteration, or discontinuation shall be made which would impair the rights of an optionee or participant under a Stock Option, Stock Appreciation Right, or Restricted Stock Award theretofore granted, without the optionee's or participant's consent, or which, without the approval of the Company's stockholders, would:

- (a) except as expressly provided in this Plan, increase the total number of shares reserved for the purpose of the Plan;
- (b) change the employees or class of employees eligible to participate in the Plan;
- (c) extend the maximum option period under Section 5(b) of the Plan; or
- (d) otherwise materially alter the terms of the Plan.

The Committee may amend the terms of any Stock Option or other award theretofore granted, prospectively or retroactively, but, subject to Section 3 above, no such amendment shall impair the rights of any holder without the holder's consent. Additionally, except for adjustments permitted under Section 3 of the Plan, no award shall be repriced or regranted through cancellation, or modified without stockholder approval, if the effect would be to reduce the exercise price for the shares underlying such award.

Subject to the above provisions, the Board shall have broad authority to amend the Plan to take into account changes in applicable securities and tax laws and accounting rules, as well as other developments.

#### **SECTION 9. GENERAL PROVISIONS.**

(a) The Committee may require each person purchasing shares pursuant to a Stock Option to represent to and agree with the Company in writing that the optionee is acquiring the shares for investment and without a view to distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. The Committee may condition the exercise of an Option or the issuance and delivery of Stock upon the listing, registration or qualification of the Stock upon a securities exchange or under applicable securities laws.

All certificates for shares of Stock or other securities delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed, and any applicable Federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(b) Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

(c) The making of an award under this Plan shall not confer upon any employee of the Company or any Subsidiary or Affiliate any right to continued employment with the Company or a Subsidiary or Affiliate, as the



case may be, nor shall it interfere in any way with the right of the Company or a Subsidiary or Affiliate to terminate the employment of any of its employees at any time.

(d) No later than the date as of which an amount first becomes includable in the gross income of the participant for Federal income tax purposes with respect to any award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any Federal, state, or local taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Committee, withholding obligations may be settled with Stock, including Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements and the Company and its

Subsidiaries or Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(e) The actual or deemed reinvestment of dividends or dividend equivalents in additional Restricted Stock at the time of any dividend payment shall only be permissible if sufficient shares of Stock are available under Section 3 for reinvestment (taking into account then outstanding Stock Options).

(f) The Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware.

#### **SECTION 10. EFFECTIVE DATE OF PLAN.**

The Plan was originally effective January 1, 2001; and approved by the holders of a majority of the shares of the Company's Common Stock on March 28, 2001. The first Amendment and Restatement of the Plan was effective as of January 1, 2003, and approved by the holders of a majority of the shares of the Company's Common Stock on March 25, 2003. This Amendment of the Plan is effective as of January 1, 2004, subject to approval by a majority of the shares of the Company's Common Stock at the first meeting of stockholders to be held in 2004. Any grants made under the Plan prior to such approval shall be effective when made (unless otherwise specified by the Committee at the time of grant), but shall be conditioned on, and subject to, such approval of the Plan by such stockholders. Notwithstanding any other provision of the Plan to the contrary, no Option, or Stock Appreciation Right may be exercised, and no Restricted Stock Award shall become vested until such approval.

#### **SECTION 11. TERM OF PLAN.**

No Stock Option, Stock Appreciation Right, or Restricted Stock Award shall be granted pursuant to this Amended and Restated Plan on or after December 31, 2006, but awards granted prior to such date may extend beyond that date.

#### **THE COOPER COMPANIES**

**By:** /s/ Carol R. Kaufman

Carol R. Kaufman

**Its:** Sr. Vice President of Legal Affairs, Secretary and Chief Administrative Officer

**THE 2006 LONG TERM INCENTIVE PLAN  
FOR NON-EMPLOYEE DIRECTORS  
OF THE COOPER COMPANIES, INC.**

**SECTION 1. PURPOSE.**

The purpose of The 2006 Long-Term Incentive Plan for Non-Employee Directors of the Cooper Companies, Inc. is to advance the interests of the Corporation by encouraging and enabling the acquisition of a personal proprietary interest in the Corporation by Non-Employee Directors of the Corporation upon whose judgment and interest the Corporation depends for the successful conduct of its operations, and by providing such Directors with incentives to put forth maximum efforts for the long term success of the Corporation's business by making the removal of restrictions from the Stock acquired hereunder as well as the value of the Stock Options granted hereunder dependent on increases in the price of the Corporation's Stock. It is anticipated that the opportunity to increase their equity interests in the Corporation will strengthen the desire of such Directors to remain on the Board of Directors and work on the Corporation's behalf and will also enable the Corporation to attract and retain additional desirable Non-Employee Directors as required in the future.

**SECTION 2. DEFINITIONS.**

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

(a) "Annual Grant Average Closing Price" shall have the meaning set forth in Section 6(a) hereof.

(b) "Annual Restricted Stock Grant" shall mean the grants made to Non-Employee Directors each November 15, pursuant to Sections 5 and 6 hereof.

(c) "Average Closing Price" shall mean the average of the closing price of the Corporation's Stock on the principal stock exchange or market on which the Stock is traded (composite quotations) on thirty consecutive trading days.

(d) "Board" or "Board of Directors" shall mean the Board of Directors of the Corporation as constituted at any time.

(e) "Cause" shall mean the felony conviction of a Non-Employee Director or the failure of a Non-Employee Director to contest prosecution for a felony, or a Non-Employee Director's willful misconduct or dishonesty.

(f) "Committee" shall mean the Board or, if, the Board delegates its power and authority to administer this Plan to a committee of the Board described in Section 4, such committee.

(g) "Corporation" shall mean The Cooper Companies, Inc., a Delaware corporation, or any successor corporation.

(h) "Disability" shall mean disability as determined under procedures established by the Committee for purposes of this Plan.

(i) "Effective Date" shall mean the date specified in Section 13 hereof.

(j) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(k) "Fair Market Value" shall mean, as of any given date, unless otherwise determined by the Committee in good faith, the mean between the highest and lowest quoted selling price of a share of Stock on the principal stock exchange or market on which the Stock is traded.

(l) "Mid-Year Restricted Stock Grants" shall mean the grants made to Non-Employee Directors pursuant to Sections 5(c) and 6(a) hereof.

(m) "Non-Employee Director" shall mean a Director of the Corporation who is not also an employee of or a consultant (acting by means of a written consulting agreement) to the Corporation or any Subsidiary.

(n) "Non-Qualified Stock Option" shall mean any Stock Option that is not an incentive stock option within the meaning of Section 422 of the Internal Revenue Code, as amended from time to time.

(o) "Plan" shall mean this 2006 Long Term Incentive Plan for Non-Employee Directors of The Cooper Companies, Inc., as amended from time to time.

(p) "Restricted Stock" shall mean the Stock issued as a result of Restricted Stock Grants.

(q) "Restricted Stock Grants" shall mean both Annual Restricted Stock Grants and Mid-Year Restricted Stock Grants.

(r) "Stock" shall mean the common stock, par value \$.10 per share, of the Corporation.

(s) "Stock Option" shall mean any option to purchase shares of Stock granted pursuant to Sections 5 and 7 hereof.

(t) "Subsidiary" shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing more than 50% of the total combined voting power of all classes of stock in one of the other corporations in the chain.

### **SECTION 3. STOCK SUBJECT TO THE PLAN; ADJUSTMENT PROVISIONS.**

(a) Subject to Section 11 and Section 3(c), the aggregate number of shares of Stock which may be subject to Restricted Stock Grants or covered by Stock Options shall be 650,000 shares; provided, however, that no more than 40,000 shares of Stock may be issued in the form of Restricted Stock. Any Stock distributed under the Plan may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

(b) If Restricted Stock issued pursuant to a Restricted Stock Grant is not purchased or is subsequently forfeited or if a Stock Option is forfeited or expires unexercised in whole or in part, the shares of Stock related thereto will no longer be charged against the limitation provided for herein and may be made subject to new Restricted Stock Grants or Stock Options.

(c) In the event of any merger, reorganization, consolidation, recapitalization, Stock dividend, Stock split or other change in corporate structure affecting the Stock, such substitution or adjustment shall be made in the aggregate number of shares of Stock reserved for issuance under the Plan, in the number of shares of Stock subject to Restricted Stock Grants and purchasable under Stock Options and the exercise price of any outstanding Stock Options as may be determined to be appropriate by the Committee, in its sole discretion, provided that the shares of Stock subject to any grant shall always be a whole number.

#### **SECTION 4. COMMITTEE.**

The Plan shall be administered by the Board or, if the Board delegates its power and authority to administer this Plan to a committee of the Board described in this Section 4, by such Committee. Any such Committee shall consist solely of two or more directors appointed by and holding office at the pleasure of the Board, each of whom is a "Non-Employee Director" as defined by Rule 16b-3. If the Board delegates its power and authority to administer this Plan to a committee, the members of such committee shall serve at the pleasure of the Board, such committee members may resign at any time by delivering written notice to the Board and vacancies in the committee may be filled by the Board. At all meetings of the Committee, the presence of a majority of the members of the Committee at the time of such meeting shall be necessary to constitute a quorum. Any act of a majority of the quorum present at the meeting shall be the act of the Committee.

#### **SECTION 5. PARTICIPANTS AND GRANTS.**

All Non-Employee Directors of the Corporation shall be eligible to receive Restricted Stock Grants and Stock Options under the Plan, subject to availability of Stock therefor. Each Restricted Stock Grant and Stock Option shall be evidenced by a written agreement, in such form as the Committee shall determine, duly executed by or on behalf of the Corporation and the recipient Non-Employee Director.

(a) On each November 1 (or in the event November 1 is a weekend or holiday, on the first day thereafter on which the Stock is publicly traded), each Non-Employee Director shall be granted a Stock Option.

(b) On each November 15 (or in the event November 15 is a weekend or holiday, on the first day thereafter on which the Stock is publicly traded), each Non-Employee Director shall be granted an Annual Restricted Stock Grant.

(c) Any Non-Employee Director who is elected or appointed to the Board after the annual grants provided for in subsections (a) and (b) above have been made shall receive a grant proportionally adjusted to reflect the number of months that such person actually serves on the Board during the initial year of service.

#### **SECTION 6. TERMS AND CONDITIONS OF RESTRICTED STOCK GRANTS.**

(a) Annual Restricted Stock Grants. Each Annual Restricted Stock Grant presented to a Non-Employee Director shall entitle the recipient to purchase 1000 shares of Restricted Stock. In the case of a Non-Employee Director who joins the Board after Annual Restricted Stock Grants have been made for a given fiscal year, such new Non-Employee Director shall be entitled to purchase 1000 shares of Restricted Stock, multiplied by a fraction, the numerator of which shall be the number of months during the fiscal year that such person will serve as a Non-Employee Director (which shall include as a full month the month that service commences) and the denominator of which shall be 12 (a "Mid-Year Restricted Stock Grant").

(b) Purchase Price. The purchase price of each share of Restricted Stock is \$.10. Payment of the purchase price shall be made in cash, or by check payable to the order of the Corporation, delivered to the Corporation no later than January 15 of the year following the date of grant or within sixty days following a Mid-Year Restricted Stock Grant. In the event such purchase price is not delivered to the Corporation within such sixty-day period, such Annual Restricted Stock Grant or Mid-Year Restricted Stock Grant, as the case may be, shall expire.

If any calculation performed hereunder would give rise to the issuance of a fractional share, the number of shares of Restricted Stock to be granted shall be rounded up to the next highest whole number.

(c) Additional Terms of Grants. All Restricted Stock purchased by a Non-Employee Director pursuant to the Plan shall be subject to the following restrictions:

(i) Restricted Stock Grants shall not be transferable by a Non-Employee Director otherwise than by will or the laws of descent and distribution and are exercisable during the Non-Employee Director's lifetime only by him or his guardian or legal representative;

(ii) the Restricted Stock may not be sold, transferred or otherwise alienated or hypothecated until all restrictions thereon are removed or expire and in no event may Restricted Stock be sold, transferred or otherwise alienated or hypothecated within six months of the date of grant;

(iii) each certificate representing Restricted Stock issued pursuant to a Restricted Stock Grant under this Plan shall bear a legend making appropriate reference to the restrictions imposed and shall be held in custody by the Corporation until the restrictions lapse, and each Non-Employee Director shall have delivered a stock power, endorsed in blank, relating to the Restricted Stock covered by such grant; and

(iv) any other applicable restrictions or conditions under the requirements of any stock exchange upon which such Stock is then listed, and under any securities or tax law applicable to such Stock, shall be imposed.

(v) Notwithstanding Sections (6)(c)(i) and (ii) above, Restricted Stock may be transferred to a trust in which the Non-Employee Director has a fifty percent or more interest or a foundation which the Non-Employee Director controls the management of the assets, provided that the Non-Employee Director receives no consideration for the Restricted Stock so transferred and the transferee receives the Restricted Stock subject to the same restrictions imposed upon the transferor and pursuant to such other conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receives evidence satisfactory to it that the trust is and shall remain under the control of the Non-Employee Director and that the transfer is being made for estate and/or tax planning purposes and on a basis consistent with the Corporation's lawful issue of securities.

(d) Removal of Restrictions. Subject to the provisions of paragraph (f) of this Section 6, restrictions imposed under subsection (c) hereof upon Restricted Stock Grants and the underlying Restricted Stock shall lapse, and the Restricted Stock underlying a particular Restricted Stock Grant shall become nonforfeitable and freely transferable as follows: Restrictions on Restricted Stock purchased pursuant to each Annual Restricted Stock Grant or Mid-Year Restricted Stock Grant shall be removed upon the earlier to occur of the following after the date of grant: (a) the Average Closing Price equals or exceeds 10% over the Fair Market Value of the Stock on the date of grant, or (b) five years.

(e) Restricted Stock Certificate; Dividends. Prior to the expiration or lapse of all of the restrictions imposed upon Restricted Stock, a stock certificate representing such Restricted Stock shall be registered in the Non-Employee Director's name but shall be retained by the Corporation for the Non-Employee Director's account. The Non-Employee Director shall have the right to vote such Restricted Stock and shall have all other rights and privileges of a beneficial and record owner with respect thereto, including, without limitation, the right to receive dividends, distributions and adjustments with respect thereto.

(f) Cessation of Service. At the time a Non-Employee Director voluntarily or involuntarily ceases to serve as a Director of the Corporation, all restrictions on Restricted Stock purchased pursuant to Restricted Stock Grants shall lapse and such Restricted Stock shall become nonforfeitable and freely transferable, unless such Non-Employee Director's service is terminated, or such Non-Employee Director fails to be re-nominated, for Cause. In the event a Non-Employee Director ceases to serve as a Director of the Corporation for any reason not involving Cause subsequent to receipt of a Restricted Stock Grant but prior to such Non-Employee Director's payment of the purchase price for the Restricted Stock with respect thereto, then the Restricted Stock may be purchased by such Non-Employee Director or, in the case of Disability or death, by his guardian or legal representative, or by the representative of his estate, the beneficiaries under his will or his distributees under the laws of descent and distribution in accordance with the provisions set forth in paragraphs (b) and (c) of this Section 6, and all restrictions to which the Annual Restricted Stock Grant or the Mid-Year Restricted Stock Grant is subject shall lapse, and the Stock issued pursuant thereto shall be nonforfeitable and freely transferable upon its issuance by the Corporation.

## SECTION 7. TERMS AND CONDITIONS OF STOCK OPTIONS.

On each November 1 each Non-Employee Director shall be granted a Stock Option to purchase up to 17,500 shares of Stock or, in the case of the Lead Director, or if no Lead Director any non-executive Chairman of the Board, up to 18,900 shares of Stock. In the case of a Non-Employee Director who joins the Board after Stock Options have been granted for a given fiscal year, such new Non-Employee Director will receive a Stock Option to purchase that number of shares of the Corporation's Stock as is equal to the number 17,500, or 18,900 in the case of a Non-Employee Director who serves as Lead Director or non-executive Chairman of the Board, as the case may be, multiplied by a fraction, the numerator of which shall be the number of months during the fiscal year that such person will serve as a Non-Employee Director (which shall include as a full month the month that service commences) and the denominator of which shall be 12. Any fraction of a share shall be rounded up to a whole share. Stock Options granted under the Plan shall be Non-Qualified Stock Options, shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(a) Exercise Price. Each Stock Option shall have an exercise price equal to the Fair Market Value on the date of grant.

(b) Option Term. Each Stock Option shall expire ten years from the date of grant.

(c) Exercisability. Subject to the provision in paragraph (g) of this Section 7, each Stock Option shall become exercisable upon the earlier to occur of the following after the date of grant (a) the date the Average Closing Price of the Corporation's Stock equals or exceeds 10% over the Stock Option's exercise price or (b) five years. Notwithstanding the foregoing, the Corporation may require that a Non-Employee Director delay exercising an exercisable Stock Option if such exercise would result in an ownership change within the meaning of Section 382 of the Internal Revenue Code or if, in the discretion of the Corporation, such exercise, when viewed in conjunction with the potential exercise of all other outstanding options (as such term is defined in Treasury Regulation Section 1.382-4(d)(9) to acquire Stock as well as the effect of other transactions involving the issuance of Stock contemplated by the Corporation, would tend to result in such an ownership change.

(d) Method of Exercise. Subject to the limitation set forth in paragraph (c) of this Section 7, Stock Options that have become exercisable may be exercised in whole or in part at any time during the option term, by giving written notice of exercise to the Corporation specifying the number of shares of Stock to be purchased. Such notice shall be accompanied by payment in full of the purchase price, either by check or such other instrument as the Committee may accept. As determined by the Committee, in its sole discretion, at or after grant, payment in full or in part may also be made in the form of Stock which has been beneficially owned by the Non-Employee Director for at least six months (based on the Fair Market Value of the Stock on the date the Stock Option is exercised). If payment of the exercise price is made in whole or in part in the form of Restricted Stock, Stock received upon the exercise shall be subject to the same forfeiture restrictions. No Stock shall be issued until full payment therefor has been made. A Non-Employee Director shall have the rights to dividends or other rights of a shareholder with respect to Stock subject to the Stock Option when the Non-Employee Director has given written notice of exercise, has paid in full for such Stock and, if requested, has given the representation described in Section 14 hereof.

(e) Non-Transferability of Options. No Stock Option shall be transferable by the Non-Employee Director otherwise than by will or by the laws of descent and distribution, and all Stock Options shall be exercisable, during the Non-Employee Director's lifetime, only by the Non-Employee Director or by his guardian or legal representative. Notwithstanding the foregoing, a Stock Option may be transferred to, exercised by and paid to a trust in which the Non-Employee Director has a fifty percent or more interest or a foundation which the Non-Employee Director controls the management of the assets, provided that the Non-Employee Director receives no consideration for the Stock Option so transferred and the transferee receives the Stock Option subject to the same restrictions imposed upon the transferor and pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receives evidence

satisfactory to it that the trust is and shall remain under the control of the Non-Employee Director and that the transfer is being made for estate and/or tax planning purposes and on a basis consistent with the Corporation's lawful issue of securities.

(f) Non-Transferability of Underlying Stock. No shares of Stock acquired upon the exercise of a Stock Option may be sold, transferred or otherwise alienated or hypothecated within six months of the date upon which the Stock Option was granted. Stock Options granted on November 1, 2006 contingent upon subsequent shareholder approval of the Plan are not deemed to have been granted for the purpose of this Section 7(f) until the date on which the Plan is approved by the Corporation's stockholders.

(g) Cessation of Service. At the time a Non-Employee Director voluntarily or involuntarily ceases to serve as a Director of the Corporation, any Stock Option issued hereunder that has failed to vest previously shall vest immediately (or, upon approval of the Plan by the Corporation's stockholders, if not yet approved), unless such Non-Employee Director's service as a Director is terminated for Cause or such Non-Employee Director fails to be re-nominated as a Director for Cause. Upon vesting, the Stock Option shall become freely exercisable, subject only to the limitation set forth in the third sentence of paragraph (c) of this Section 7.

When a Non-Employee Director ceases to serve as a Director, the Stock Options granted hereunder may continue to be exercised for the lesser of three years following the termination of service or the balance of such Stock Options' respective terms, unless the Non-Employee Director's service as such is terminated for Cause, or such Non-Employee Director fails to be re-nominated for Cause, in which case the Stock Options shall be forfeited. In the event that a Non-Employee Director ceases to serve as a Director due to Disability or death, such Non-Employee Director's guardian or legal representative, or the representative of his estate, the beneficiaries under his will or his distributees under the laws of descent and distribution, as the case may be, shall have the same exercise rights as were enjoyed by the Non-Employee Director.

#### **SECTION 8. NO RIGHT TO RE-ELECTION.**

Nothing in the Plan shall be deemed to create any obligation on the part of the Board of Directors to nominate any Director for re-election by the Corporation's stockholders, or to confer upon any Director the right to remain a member of the Board of Directors.

#### **SECTION 9. TAX OBLIGATIONS.**

The Corporation shall notify Non-Employee Directors of their tax liabilities that arise under any federal, state or local tax rules or regulations with respect to the issuance of Restricted Stock or the exercise of Stock Options. Payment of the appropriate taxes is the sole responsibility of the Non-Employee Directors.

#### **SECTION 10. ISSUANCE OF STOCK AND COMPLIANCE WITH SECURITIES ACT.**

The Corporation may postpone the issuance and delivery of Stock pursuant to a Restricted Stock Grant or the exercise of a Stock Option until (a) the admission of such Stock to listing on any stock exchange on which other shares of Stock are then listed and (b) the completion of such registration or other qualification of such Stock under any state or federal law, rule or regulation as the Corporation shall determine to be necessary or advisable. As a condition precedent to the issuance of Stock pursuant to a Restricted Stock Grant or the exercise of a Stock Option, the Corporation may require the recipient thereof to make such representations and furnish such information as may, in the opinion of counsel for the Corporation, be appropriate to permit the Corporation, in the light of the then existence or non-existence with respect to such Stock of an effective Registration Statement under the Securities Act of 1933, as amended, to issue the Stock in compliance with the provisions of that or any comparable act.

**SECTION 11. ADMINISTRATION AND AMENDMENT OF THE PLAN.**

Except as hereinafter provided, and except as limited by Rule 16b-3(c)(2)(ii) of the Exchange Act, the Board of Directors may amend any provisions of the Plan relating to the terms and conditions of any Restricted Stock Grants or Stock Options not theretofore granted, and, with the consent of any affected Non-Employee Director, may withdraw or amend any provisions of the Plan relating to the terms and conditions of such Restricted Stock Grants or Stock Options as have been theretofore granted. The Board of Directors may amend the terms of any outstanding Restricted Stock Grant or Stock Option with the consent of the holders thereof. Notwithstanding the foregoing provisions of this Section 11, any amendment by the Board of Directors which would increase the number of shares of Stock issuable under the Plan, change the class of Directors to whom grants may be made hereunder or change any material terms of the Restricted Stock Grants or the Stock Options shall be subject to the approval of the stockholders of the Corporation within one year of such amendment if such approval is required.

A determination of the Committee as to any questions which may arise with respect to the interpretation of the Plan, Restricted Stock Grants, Stock Options or the written agreements evidencing the Restricted Stock Grants and the Stock Option grants shall be final.

The Committee may authorize and establish such rules, regulations and revisions thereof not inconsistent with the provisions of the Plan, as it may determine to be advisable to make the Plan, Restricted Stock Grants and Stock Options effective or to provide for their administration, and may take such other action with regard to the Plan, Restricted Stock Grants and Stock Options as it shall deem desirable to effectuate its purpose.

**SECTION 12. GOVERNING LAW.**

Except as required by Delaware corporate law, the Plan shall be governed by and construed in accordance with the laws of the State of California, without giving effect to principles of conflict of laws.

**SECTION 13. EFFECTIVE DATE OF THE PLAN.**

The Plan shall be submitted to the stockholders of the Corporation for their approval at the Annual Meeting of the Stockholders to be held in 2006. The Plan shall become effective upon receipt of the affirmative vote of the holders of a majority of the shares of Stock present, or represented, and entitled to vote at the meeting.

**SECTION 14. GENERAL PROVISIONS.**

The Committee may require each Non-Employee Director purchasing Stock pursuant to a Restricted Stock Grant or a Stock Option to represent to and agree with the Corporation in writing that such Non-Employee Director is acquiring the Stock for investment and without a view to distribution thereof.

All certificates for shares of Stock or other securities delivered under the Plan shall be subject to such Stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed, and any applicable Federal or State securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.



**SECTION 15. TERM OF PLAN.**

No Restricted Stock Grant or Stock Option may be granted pursuant to the Plan on or after the date three years following the Effective Date of the Plan, but grants made prior to such date may extend beyond that date.

**THE COOPER COMPANIES**

**By:** /s/ Carol R. Kaufman

Carol R. Kaufman

**Its:** Sr. Vice President of Legal Affairs,  
Secretary and Chief Administrative Officer

**CERTIFICATIONS**

I, A. Thomas Bender, Chairman of the Board, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Cooper Companies, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 9, 2006

/s/ A. Thomas Bender  
\_\_\_\_\_  
A. Thomas Bender  
Chairman of the Board, President and Chief Executive Officer

**CERTIFICATIONS**

I, Steven M. Neil, Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Cooper Companies, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 9, 2006

/s/ Steven M. Neil  
\_\_\_\_\_  
Steven M. Neil  
Vice President and Chief Financial Officer

**Certification of Chief Executive Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of The Cooper Companies, Inc. (the "Company") hereby certifies that:

- (i) To his knowledge, the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended April 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) To his knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 9, 2006

/s/ A. Thomas Bender

A. Thomas Bender

Chairman of the Board, President and Chief Executive Officer

**Certification of Chief Financial Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of The Cooper Companies, Inc.(the "Company") hereby certifies that:

- (i) To his knowledge, the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended April 30, 2006 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) To his knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 9, 2006

/s/ Steven M. Neil

---

Steven M. Neil

Vice President and Chief Financial Officer