The Cooper Companies, Inc.

Annual Report

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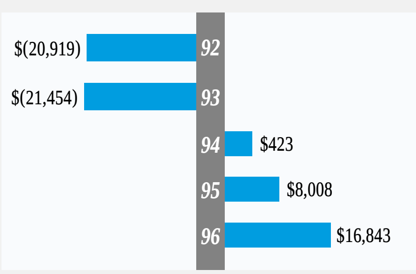
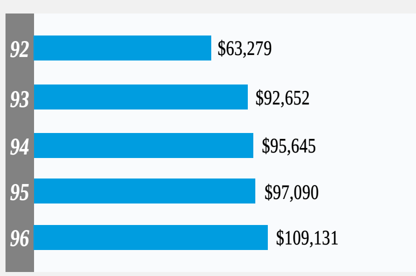
Contents

The Cooper Companies, Inc. develops, manufactures and markets specialty healthcare products in eyecare and women's healthcare and operates psychiatric facilities. ***CooperVision, Inc.*** *develops, manufactures and markets a wide range of contact lenses. It specializes in soft toric contact lenses to correct astigmatism.* ***CooperSurgical, Inc.*** *supplies proprietary gynecological diagnostic and surgical instruments, accessories and devices for the physician's office, the surgicenter and the hospital.* ***Hospital Group of America, Inc.*** *(HGA) owns and operates psychiatric hospitals and satellite facilities that provide inpatient, outpatient and ancillary treatment for children, adolescents and adults. The Company employs approximately 1,100 people in the United States and Canada.*

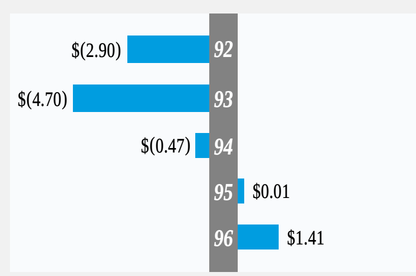
Operating Income (loss)
($ thousands)



Revenue
($ thousands)



Earnings (loss) per share

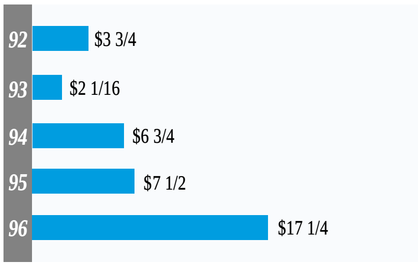


Financial Highlights

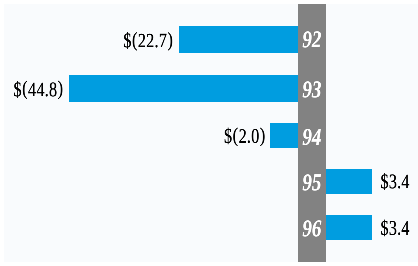
(In thousands except per share data)	1996	% change from 1995	1995	% change from 1994
Revenue				
CooperVision[1]	$48,892	15%	$42,472	11%
CooperSurgical	$17,226	34%	$12,824	—
Hospital Group of America	$43,013	3%	$41,794	(6%)
Total	$109,131	12%	$97,090	2%
Operating Income				
CooperVision	$19,065	37%	$13,959	17%
CooperSurgical	$1,667	*n/m*	$(425)	54%
Hospital Group of America	$2,573	193%	$878	(74%)
Corporate[1]	$(6,462)	(1%)	$(6,404)	54%
Total	$16,843	110%	$8,008	*n/m*
Operating income as a % of revenue	15.4%	—	8.2%	—
Earnings				
Net income	$16,603	*n/m*	$115	*n/m*
As a % of revenue	15.2%	—	—	—
Per share	$1.41	*n/m*	$0.01	*n/m*
Other Financial Data				
Depreciation and amortization	$3,878	5%	$3,696	(4%)
Cash flow from operating activities	$3,457	1%	$3,421	*n/m*
Cash and cash equivalents	$6,837	(39%)	$11,207	9%
Working capital	$9,187	*n/m*	$1,615	29%
Total assets	$102,909	12%	$91,992	(3%)
Total liabilities	$87,579	(7%)	$93,741	(5%)
Stockholders' equity (deficit)	$15,330	*n/m*	$(1,749)	52%
Average shares used for EPS	11,761	2%	11,576	14%

[1] *Includes CooperVision Pharmaceuticals*

Share Price,
December 31



Cash Flow from Operating Activities
($ millions)



Operational Highlights:

And Important Notes

Fiscal 1996 in Brief

- The Company's revenue increased 12% to $109.1 million. During each quarter, the percentage gain year-to-year improved. Sales grew 15% at CooperVision, 34% at CooperSurgical, and 3% at HGA.
- Operating income more than doubled to $16.8 million in 1996 from $8 million in the previous year.
- Earnings per share, including a deferred tax benefit of 35 cents per share, grew to $1.41 from one cent.
- CooperVision continued strong revenue, operating income and market share growth and announced that it was doubling, for the second time in two years, the capacity of the plant that manufactures its most popular lenses. Specialty lenses to correct conditions such as astigmatism now account for approximately 70% of CooperVision's sales.
- Approximately 90 percent of CooperSurgical's revenue now derives from women's healthcare. In April, the Company acquired Unimar, a leading provider of specialized disposable medical devices for gynecology and completed a worldwide agreement to market a line of advanced new products for soft tissue ablation. The business is now profitable.
- At HGA, Hampton Hospital returned to profitability after settling a dispute with its former physician group. To augment its Hartgrove Hospital, HGA announced that in 1997 it will open a new residential treatment center facility that provides stepped-down, cost-effective care for adolescents. Revenue grew 3% as access to service improved at all three hospitals despite declining length of stay.
- The Fort Lee, New Jersey, office was closed, and risk management was restructured and insurance premiums fell, as exposure to potential litigation has lessened substantially.
- Stockholders' equity turned positive.
- A portion of the Company's outstanding debt and line of credit were refinanced at lower rates, which could generate savings in excess of two cents per share in fiscal 1997.

Explanation of the Deferred Tax Benefit

In the fourth quarter of 1996, the Company recognized an income tax benefit of $4.1 million, or 35 cents per share from reducing the valuation allowance that, as prescribed by generally accepted accounting principles (GAAP), had been established to offset our net deferred tax assets. These assets consist primarily of the tax benefit of approximately $234 million of net operating loss carryforwards. Among other criteria, GAAP requires a strong earnings history to recognize all or part of this benefit. Recent earnings have met this criterion, so in 1996 the allowance was reduced, resulting in an increase to earnings of $4.1 million, or 35 cents per share during the year. Assuming continued earnings growth in 1997, the Company plans to reduce further the valuation allowance and recognize additional tax benefits.

A Note About Forward-Looking Statements in This Report

This report contains projections and other forward-looking statements of the Company's results and prospects. Actual results could differ materially from these projections. Factors that could cause or contribute to differences include: major changes in business conditions and the economy in general, new competitive inroads, regulatory and other delays on new products and programs, unexpected changes in reimbursement rates and payer mix, unforeseen litigation, decisions to divest businesses and the cost of acquisition activity, particularly if a large acquisition is not completed. Future results are also dependent on each business unit meeting specific objectives. At CooperVision, 1997 sales and operating income are expected to grow at mid-teens percentages as it continues to gain market share in the toric segment of the global contact lens market. CooperSurgical is expected to continue to benefit from the 1996 acquisition of Unimar and grow 1997 sales and operating income at double-digit rates as the market for gynecologic procedures is increasingly driven by growth in the population of women over 45 years of age in the United States. We expect HGA revenue and operating income in 1997 to achieve double-digit growth through new outpatient clinics, geriatric programs and lower cost residential treatment services, assuming that patient revenue and operating expenses can continue to successfully adjust to changes in third party reimbursement rates for psychiatric care. We expect the Company's consolidated revenue and operating income to grow by more than 15% and 30% respectively in 1997 and anticipate earnings per share in the range of $1.55 to $1.65 including a deferred tax benefit of about 15 cents per share.

Dear Fellow Stockholder,

We are pleased to report that the renaissance of The Cooper Companies, Inc., continued in 1996. Your company is now a respected enterprise competing effectively in three segments of the health-care market.

A Year of Growth

Operating income of $16.8 million, up 110% and earnings per share of $1.41—including a $.35 per share deferred tax benefit—up from last year's one cent per share, testify to the ongoing revitalization of the Company.

Each of our business units participated in the continuing recovery, and the contribution of corporate cost reduction was also impressive. CooperVision, our specialty contact lens business, achieved outstanding sales, market share and operating income levels. At CooperSurgical, two significant agreements supported our long-term strategy to acquire proprietary, state-of-the-art product lines and businesses requiring little incremental infrastructure. At Hospital Group of America, the return to profitability of Hampton Hospital after the settlement of a dispute with its former physician group, was most gratifying, as was the performance at Hartgrove and MeadowWood hospitals. The expansion of our outpatient programs has been the source of renewed revenue growth.

Financially, the interest rate on two of our debt instruments was reduced, and stockholders' equity turned positive.

We've also worked to improve stockholder understanding of our businesses by installing a toll free stockholder request and information telephone number—1-800-334-1986—and opening a site on the World Wide Web, www.coopercos.com.

Looking Ahead

We expect this exceptional performance to continue in fiscal 1997 and beyond. Revenue is estimated to increase by more than 15% and operating income by more than 30% in 1997. Earnings per share, including an estimated 15 cents per share for a deferred tax benefit, are expected to range from $1.55 to $1.65. Excluding the effect of tax benefits, earnings per share should grow 40% to over $1.40 in 1997, compared with the $1.00 per share, before the tax benefits, that we earned in 1996.

We have two basic goals for 1997: increasing market penetration with our existing products and services and accelerating our business development efforts. With our vision care and women's health businesses, we will concentrate on enhancing revenue and profitability through efficient target marketing and new product offerings. At HGA, each hospital's management will focus on growing market share in its geographic region through expanded referral and ancillary programs. Our business development efforts will concentrate on growing CooperVision's contact lens franchise worldwide and CooperSurgical's gynecology business through strategic partnerships and acquisitions.

To Our Employees

We want to take this opportunity to thank all of our employees for producing the outstanding results we achieved this year. We salute each of you for your continuing commitment to excellence.

Respectfully,

Allan E. Rubenstein, M.D.
Chairman of the Board

A. Thomas Bender
President and Chief Executive Officer

January 27, 1997

Questions For The Chief Executive:

A Conversation with Tom Bender

Questions | **Answers**

Q: *HOW WOULD YOU DESCRIBE COOPER'S STRATEGY?*

A: Cooper is a specialty healthcare company currently serving the vision care, women's healthcare and mental health market segments. We provide underserved specialty healthcare markets with proprietary products and services that can improve health outcomes and reduce healthcare costs.

Q: *WOULD COOPER CONSIDER ENTERING OTHER AREAS OF HEALTHCARE?*

A: Yes we would if they were specialty opportunities. Even with managed care and other health reform initiatives, I think there are other opportunities for Cooper to offer profitable specialty products and services in carefully chosen market niches where price sensitivity is minimal, or where we can capitalize on developing technological, social, and demographic trends. Most of our energy, however, will be devoted to our three current businesses.

Q: *HOW DO YOU PLAN TO BUILD YOUR BUSINESSES?*

A: Each business unit has somewhat different plans. In vision care, we're concentrating on building market share in our specialty niches with our existing contact lens product lines, introducing new lens products, looking for opportunities to expand overseas and evaluating the acquisition of strategically sound lens businesses and product lines. We're also looking for complementary businesses and products in other eyecare niches that could benefit from the CooperVision name. In women's healthcare, where the market is very fragmented, we want to be a consolidator, by adding proprietary products and strategically targeted acquisitions and alliances. In mental health, we're developing services that can support the trend toward lower reimbursement per case by offering a variety of subacute and outpatient services that assure continuity of patient care.

In addition, we will continue to pursue our goal to acquire businesses that complement our healthcare strategy and create profit, thereby accelerating the use of our net operating losses (NOLs).

Q: *HOW WILL YOU FINANCE YOUR BUSINESS DEVELOPMENT ACTIVITIES?*

A: The smaller acquisitions—like many I anticipate in women's healthcare—can be financed with our own funds or with our $8 million line of credit. Any larger transaction would require an equity offering of some kind. Our preference would be to acquire a target company with Cooper stock.

Q: *WHAT'S YOUR STRATEGY REGARDING THE PSYCHIATRIC HOSPITAL BUSINESS?*

A: Since we successfully settled the dispute with the former physician group at our Hampton Hospital in December, 1995, our strategic options with HGA have expanded. We're now in a position to develop the full potential of the hospitals so that stockholders can achieve a maximum return on their investment in HGA either as a part of Cooper, or, in time, as a separate unit. Although a spin-off may eventually be in order to maximize shareholder value, it will only be done at the right time and we're not there yet. We'll continue to emphasize new, cost-effective programs and remain a strong player in the geographic regions where we participate. What's important is that HGA is now contributing positively to the Company's operating results, and that helps us leverage our NOLs.

Q: *DO YOU HAVE ANY PLANS TO RETIRE YOUR DEBT WITH THE PROCEEDS OF A STOCK OFFERING?*

A: No. During 1996 we spent a fair amount of time considering various financing options using our stock, but given our current financial needs, and after considering our stock trading price, we decided it wasn't worth doing if all we were going to do was take out our existing 10% debt. In terms of our debt structure, while we do have a substantial amount of debt, approximately $10 million of it is convertible into Cooper stock at $15 per share. We expect that if we perform as expected, we will see that conversion in the near future. This year we refinanced our most expensive debt at a reduction of 200 basis points beginning in November, 1996.

Questions Answers

Q: *WHY IS YOUR CASH FLOW LOWER IN THE FIRST QUARTER THAN THROUGHOUT THE REST OF THE YEAR?*

A: For several reasons. First, in 1996 we paid $3.1 million to the Hampton Hospital's former physician group. The balance of approximately $3.1 million will be paid off in two equal installments in May of 1997 and 1998. Second, we make significant on-going payments to Bristol Myers Squibb in the first quarter as a part of the breast implant settlement. These payments escalate each year and some are contingent on future earnings. Third, we make employee incentive payments in the first quarter.

Q: *WHAT WOULD BE THE IMPACT ON YOUR EARNINGS IF THEY WERE FULLY TAXED?*

WOULDN'T THIS BE A FAIRER WAY TO VALUE THE BUSINESS GOING FORWARD?

A: It's really hard to project the impact. In the mid-term, we won't be taxable at all, for federal income tax purposes, because of our $234 million of NOLs. And long before we have used these NOLs, we will develop a strategy to maintain the lowest effective tax rate prudently possible. This rate will be substantially lower than the overall 40% I hear bandied about by some.

As to the second part of the question, to arbitrarily "fully" tax earnings when valuing Cooper would ignore the real cash savings and strategic advantage of the NOLs—a substantial off balance sheet asset. To do so would cause, in my opinion, a serious undervaluation. You should assume that we intend to properly redeploy the cash savings of this asset to grow our core businesses faster than competitors who must pay a heavy burden of federal income taxes. We plan to leverage this asset and I see no need to discount our valuation because of it.

Q: *WHAT'S YOUR CURRENT APPRAISAL OF THE IMPACT OF THE NEWER LASER SURGICAL PROCEDURES ON YOUR CONTACT LENS BUSINESS?*

A: I haven't changed my view of this technology. While some patients who can afford the unreimbursed cost of approximately $2,000 per procedure will choose surgery for convenience or occupational need, there's a definite economic ceiling on that number. As recent history has shown, the early market estimates of one million eyes per year in 1996 were overstated. The current projections for 1997 are in the 150,000 to 170,000 range and this number appears realistic, in my view. I believe that laser surgery is currently not a threat to anyone's contact lens business, and certainly not to Cooper's astigmatic lens business.

Q: *HOW DO YOU EXPECT COOPER TO PERFORM OVER THE NEXT FEW YEARS?*

A: Here's what I see for each business: CooperVision should continue to grow revenue and operating income by 15% to 20% for the next three years. Our target, assuming some acquisitions along the way, is to exceed $100 million in sales in this business by the year 2000 and to be a world market leader in specialty contact lenses as we begin to penetrate overseas markets and continue to increase our North American market share. We will also be looking to expand in other proprietary vision niches, leveraging the excellent image we have with the CooperVision name. In women's healthcare, CooperSurgical will be aggressive in acquiring businesses and proprietary products that will fuel both top- and bottom-line growth and enable us to capitalize on our NOLs. I envision CooperSurgical as one of the leading women's healthcare device companies with revenue exceeding $50 million in the next two or three years, again assuming some acquisitions. With HGA, our strategy over this period is to maximize stockholder value either by achieving growth and rates of return equal to the market leaders, or by obtaining a fair value for it. We believe we can grow HGA revenue about 10% per year for the next couple of years and continue to use its profits to leverage our NOLs.

The Cooper Companies, Inc. expects compounded revenue growth in the mid-teens and compounded operating earnings growth of over 30% for the next several years. Cooper expects to grow earnings per share, excluding tax benefits, in the neighborhood of 40% in each of the next two years. While we may examine some opportunities outside of our existing businesses, most of our energy will be devoted to maximizing the potential of the three we have now.

CooperVision

CooperVision develops, manufactures and markets a wide variety of contact lenses that correct visual defects. It markets its products in the United States and Canada and, through distributors, in over 40 overseas markets.

Rather than competing against low-margin, commodity lenses used to correct common cases of nearsightedness, CooperVision concentrates on manufacturing specialty lenses for patients whose vision is more difficult to correct, especially toric lenses which correct astigmatism, an irregularity in the shape of the cornea. This is a previously underserved niche with growth potential outpacing the total contact lens market. In addition, as technology improves, we expect that more patients who now wear spherical lenses will choose to wear toric lenses.

Although the total number of contact lens wearers is expected to be flat or decline slightly into the next century due to shifting demographics and future surgical technologies, CooperVision is well positioned with high quality products in the astigmatic market that, we believe, is less vulnerable to both trends.

The Company estimates that the size of the toric contact lens market in the United States is approximately $150 million at the manufacturers' level. About $50 million to $60 million of this market is "conventional" toric contact lenses, a declining, lower profit segment. CooperVision competes in the two fast growing, more profitable toric lens segments, "planned replacement" toric lenses and "custom" toric lenses, estimated together at about $90 million to $100 million.

The estimated $60 to $65 million "planned replacement" toric segment, so called because patients replace their lenses monthly or quarterly based on comfort and clinical success, grew about 50% last year. CooperVision more than doubled its planned replacement business during 1996, achieving the number two market share position, while growing more than twice as fast as the market segment.

> *"Encouraged by current growth and anticipated future demand, we are expanding our Scottsville, New York, manufacturing facility to nearly double its size for the second time in two years..."*

In the estimated $30 to $35 million "custom" toric market where lenses are manufactured-to-order for difficult to fit patients, CooperVision's share—about 50%—continues to grow.

Cooper's planned replacement *Preference Toric* lenses are manufactured from deposit resistant material that can offer patients additional convenience by eliminating an extra step in lens cleaning. Also, lens practitioners can fit patients more easily with *Preference Toric* lenses than with competing brands. CooperVision offers more than four times as many parameters as its competitors. This means that practitioners can fit their patients more precisely, as many more CooperVision lenses are available to correct an individual's specific eye disorder.

With its unique manufacturing process, CooperVision can also provide specialty contact lenses for patients who are so severely near- or farsighted that most manufacturers cannot economically supply them with lenses. This is a small but, from the practitioner's point of view, important group of patients for CooperVision to service.

CooperVision's sales grew by 15% in the 1996 fiscal year. Sales of toric lenses were very strong, growing more than 35%. Toric and other specialty lenses now account for approximately 70% of CooperVision's sales. Margins continue to improve, reflecting both manufacturing efficiencies and favorable mix as the percentage of specialty lenses grows. Although still relatively small, sales outside of North America grew by 56% during the year.

CooperVision produces lenses from a variety of materials, including Tetrafilcon A, a polymer highly resistant to naturally occurring deposits that cloud and distort vision. Our lens manufacturing technology combines state-of-the-art molding and lathing to maximize production flexibility, efficiency and quality in order to minimize manufacturing costs. This process provides CooperVision with a major competitive advantage by offering practitioners and their patients a wide choice of consistently reproducible lenses to maximize the potential of a successful fit.

To meet the clinical needs of eyecare professionals and for patient health and convenience, CooperVision has developed *Preference*, a premium three month planned replacement lens. Clinical studies have demonstrated that the *Preference* lens resists vision-clouding lens deposits more effectively than other frequent or planned replacement lenses. Consequently, the *Preference* patient is not required to use an enzymatic cleaner over the lenses' three month wearing cycle, eliminating the cost and inconvenience of an extra lens care step. For managed care practitioners operating in "capitated" payment environments where they are paid a flat fee to cover their patients' total annual eyecare needs, this means fewer patient visits and, therefore, lower cost per patient and higher practitioner income. Our direct customer, the eyecare practitioner, also benefits financially when prescribing *Preference* compared with lenses recommended for shorter replacement cycles.

CooperVision supports the practitioner's need to maximize productive office time through a computerized customer service system that selects the correct toric lens to fit more than 13 million different parameters. This system results in next day delivery more than 90% of the time. Lens exchanges are covered under a comprehensive warranty program that protects the practitioner from out-of-pocket costs in the rare case of a fitting failure.

Customer service continues as a major marketing initiative to provide us with a competitive advantage. A universal order entry system links our California and New York locations. This allows customers to place a single order for all CooperVision requirements and also provides a back-up capability.

Encouraged by current growth and anticipated future demand, we are expanding our Scottsville, New York, manufacturing facility to nearly double its size for the second time in two years and plan to begin production in the addition in March, 1997. To facilitate our future entry into the European market, will have obtained ISO 9001 technical certifications for both our California and New York manufacturing sites by the end of 1997.

In 1996, we expanded our *Preference Toric* product lines and introduced a line of products for the managed care market. During 1997, we anticipate introducing three new products for this market.

Looking forward, we expect double-digit growth in our contact lens business as we grow our share of the toric lens market and enter into relations with influential Asian and European partners. In fact, we are nearing a strategic alliance with a Japanese partner and expect European affiliations by the second quarter of 1997.

CooperSurgical

CooperSurgical was founded in 1990 to serve the emerging women's healthcare market. Annually, an estimated 4.5 million women between the ages of 18 and 50 have one or more gynecological conditions. More than one-third of all women, at some point in their lives, will develop a uterine problem that will require a hysterectomy. In the United States today, there are 33,000 obstetrician and gynecologists whose patients generate more than 64 million gynecological visits annually.

These physicians perform over 2.2 million surgical procedures each year. Furthermore, there is a trend among women to use gynecologists as their primary care physician. Unlike other specialists, they are less dependent on referrals from general practitioners who, with the pressures of medical cost containment, are now keeping as many patients as possible in their own practices. The gynecologist also tends to be an early adopter of technology. With the advent of minimally- and micro-invasive procedures, many procedures have been moved from the hospital operating room to ambulatory surgical centers and, now, increasingly, to the physician's own office.

The highly-fragmented gynecological products market is expected to exceed $1 billion, at the manufacturers' level, by the year 2000. Today, over 25 separate product niches are served by more than 60 companies marketing both domestically and abroad.

"CooperSurgical's mission is to consolidate the gynecological market by acquiring companies and products that offer proprietary, cost-effective approaches to diagnose and treat gynecological disorders both in the physician's office and, for specific procedures, in the hospital surgical suite."

CooperSurgical's mission is to consolidate the gynecological market by acquiring companies and products that offer proprietary, cost-effective approaches to diagnose and treat gynecological disorders both in the physician's office and, for specific procedures, in the hospital surgical suite. These conditions include excessive menstrual bleeding, cancer, nonmalignant fibroid tumors and endometriosis, an inflammation of the lining of the uterus. Urinary incontinence, tubal sterilization and infertility are among other market segments of interest.

In 1990, the Company acquired Frigitronics, a manufacturer of cryosurgical devices for the in-office treatment of diseases of the cervix and other common disorders, and colposcopy instruments considered indispensable in the evaluation of the genital tract. In 1991, CooperSurgical acquired a leading direct marketer of gynecological instruments, Euro-Med, Inc., a company with a reputation of offering the finest instruments available to the gynecologist. Many of these instruments were designed in collaboration with gynecology's thought leaders and are now used routinely in a wide variety of procedures. In 1992, CooperSurgical launched the LEEP product line (Loop Electrosurgical Excision Procedure) that is now viewed as the standard for in-office treatment of precancerous conditions of the cervix.

During 1993 and 1994, CooperSurgical established a broad product line in hysteroscopy, a procedure that allows direct viewing of the inside of the uterus to evaluate and treat uterine pathology. Last year, CooperSurgical acquired the *RUMI* uterine manipulator, a patented system for controlling and positioning the uterus during surgery. *RUMI* product line extensions include the *KOH Colpotomizer System* which facilitates laparoscopic hysterectomy surgical procedures that will be introduced in the first quarter of 1997 after its recent FDA approval. Additional *RUMI* product line extensions are planned during 1997.

In 1996, the Company acquired Unimar, Inc., a leading provider of specialized disposable medical devices for gynecology. Unimar offers products for endometrial tissue sampling for infertility and the diagnosis of cancer and its precursors, cytological sampling, uterine control during tubal ligation and minimally invasive laparoscopy.

With the acquisition of Unimar, approximately 90% of CooperSurgical's revenue is now generated by gynecological products. CooperSurgical now offers one of the broadest lines of medical devices available in the United States for the in-office gynecology market. Unimar's *Pipelle,* used by 20,000 physicians, is currently the instrument of choice in endometrial tissue sampling. Over 50 clinical references support its effectiveness. This device replaces the high-cost, high-risk diagnostic dilation and curettage procedure as an in-office cancer screening device.

Unimar's patented *J-Needle* permits quick suturing of incisions in gynecological laproscopic procedures, allowing rapid healing and preventing herniation after surgery. Other Unimar products offer CooperSurgical opportunities in the infertility market.

CooperSurgical's 1996 sales reached $17.2 million up 34% over 1995. The gynecology product line grew 50%. The sales increase was primarily driven by the newly acquired *Unimar* and *RUMI* product lines and continued growth in the LEEP line of disposable surgical instruments. Sales of nonstrategic products declined. Operating income was positive, reaching $1.7 million as compared with a loss of $425 thousand in 1995.

In 1997, we anticipate continued growth of the *Unimar* and *RUMI* lines, aggressive product acquisition activity and a further decline in non-gynecological products. Sales are expected to grow more than 20% with even stronger growth in operating income.

Hospital Group of America

HGA owns three psychiatric hospitals and adjacent satellite facilities in New Jersey, Delaware and Illinois. These three hospitals provide intensive and structured treatment for children, adolescents and adults suffering from a variety of mental illnesses. Services include comprehensive psychiatric and chemical dependency evaluations, academic services, inpatient and outpatient treatment and partial hospitalization.

In December of 1995, HGA announced a charge to 1995 earnings to cover the settlement of a dispute with the physician group that formerly serviced its Hampton Hospital. In the announcement we said that we expected to recoup our initial cash outlays in 12 to 18 months and that the settlement would be cumulatively cash positive after approximately 24 months through reduced costs and increased revenue. We remain on track to meet these goals. In the three quarters following the transition of the medical staff at Hampton, HGA's net patient revenue grew 12% compared with the comparable quarters in 1995. Increased patient visits to HGA's outpatient and day treatment programs have helped offset downward pressure on revenue from managed care plans due to declining length of stay.

HGA fiscal 1996 revenue increased 3% to $43.0 million. When revenue from a hospital contract that expired in May 1995 is eliminated from the comparison, revenue grew 6%. HGA operating income nearly tripled, up 193% to $2.6 million.

HGA revenue is expected to grow about 10% during 1997 as inpatient geriatric and adolescent programs and ancillary outpatient, partial and day treatment programs expand. HGA is now entitled to a new rate for a third party reimbursement program which at current census levels is expected to generate over $2 million in fiscal 1997. Virtually all of this will be incremental operating income.

> *"These new HGA programs have been designed to respond effectively to changes in today's mental health market place."*

Today's mental health providers are required to respond to increasing demands from their customers to decrease costs and improve outcomes. These demands include providing full service and continuity of care, and assuming financial and outcome risk as payment shifts from fee for service to capitation. HGA is continuing to develop programs to respond to these market dynamics.

At Hampton Hospital, plans include a new adolescent day treatment center in Central New Jersey in collaboration with another institution, creation of a comprehensive geriatric assessment and consultation program on-site at the hospital, within local nursing homes and through in-home programs and expansion of the capacity of the on-site day treatment program.

In March, HGA will open a residential treatment center, The Midwest Center for Youth and Families, in Kouts, Indiana, to support regional services of Hartgrove Hospital. The new Center is a subacute care facility for intermediate stays that provides stepped-down, cost-effective care for adolescent residential patients. The Center's objectives are to provide quality psychiatric care to patients who have been unresponsive to outpatient treatment, partial hospitalization and in-home treatment and to successfully treat those with a history of multiple costly hospitalizations or failed treatment, enabling them to return to their families and home communities.

The Center plans to have 50 beds for patients between the ages of 12 and 17. This program will be reimbursed by most major insurance companies and by county Departments of Family and Children. Public partnerships such as this are becoming more important to HGA as it begins to capitalize on opportunities to provide services to schools, nursing homes, community agencies and hospitals throughout the three regions in which it operates.

Corporate Activities

We have now completed the shutdown of our office in Fort Lee, New Jersey. Combined with savings from consolidating our risk management department and lower product liability, directors and officers and other insurance premiums due in large part to the Company's more favorable recent results, we have lowered overhead expenses in excess of $2 million per year.

Last September, we announced an agreement with our lender to amend $11 million of HGA debt. The interest rate on this debt was reduced by 2 percentage points effective at the beginning of fiscal 1997, for an annual savings of approximately $200 thousand. Also, the interest rate on our $8 million line of credit held by CooperVision was reduced by one percentage point. Together, assuming we use the entire credit line for an acquisition or other strategic transaction, these rate reductions would save us in excess of two cents per share in annual interest in 1997.

Scientific Advisors

To The Company

Eye Care

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Contents

Financial Information

Financial Review

Financial Statements

Five Year Financial Highlights

The Cooper Companies, Inc. and Subsidiaries

Consolidated Operations

	Years Ended October 31,				
	1996	1995	1994	1993	1992
	(In thousands, except per share figures)				
Net operating revenue	$109,131	$ 97,090	$ 95,645	$ 92,652	$ 63,279
Income (loss) from continuing operations before extraordinary items	$ 16,603	$ 115	$ (4,697)	$(34,072)	$(16,158)
Loss on sale of discontinued operations, net of taxes	—	—	—	(13,657)	(9,300)
Income (loss) before extraordinary items	16,603	115	(4,697)	(47,729)	(25,458)
Extraordinary items	—	—	—	924	640
Net income (loss)	16,603	115	(4,697)	(46,805)	(24,818)
Less, preferred stock dividends	—	—	89	320	1,804
Net income (loss) applicable to common stock	$ 16,603	$ 115	$ (4,786)	$(47,125)	$(26,622)
Earnings (loss) per share: Continuing operations	$ 1.41	$ .01	$ (.47)	$ (3.43)	$ (1.96)
Loss on sale of discontinued operations	—	—	—	(1.36)	(1.01)
Income (loss) before extraordinary items	1.41	.01	(.47)	(4.79)	(2.97)
Extraordinary items	—	—	—	.09	.07
Earnings (loss) per share	$ 1.41	$ .01	$ (.47)	$ (4.70)	$ (2.90)
Average number of common shares used to compute earnings per share	11,761	11,576	10,193	10,035	9,167

Consolidated Financial Position

	October 31,				
	1996	1995	1994	1993	1992
	(In thousands)				
Current assets	$ 42,495	$ 41,228	$ 43,505	$ 51,875	$119,282
Property, plant and equipment, net	34,674	34,062	34,787	39,895	39,732
Intangible assets, net	21,468	14,933	15,327	16,285	10,083
Other assets	4,272	1,769	1,439	1,469	3,910
Total assets	$102,909	$ 91,992	$ 95,058	$109,524	$173,007
Current liabilities	$ 33,308	$ 39,613	$ 42,256	$ 51,995	$ 68,119
Long-term debt	47,920	43,490	46,184	48,077	58,591
Other long-term liabilities	6,351	10,638	10,272	9,000	—
Total liabilities	87,579	93,741	98,712	109,072	126,710
Stockholders' equity (deficit)	15,330	(1,749)	(3,654)	452	46,297
Total liabilities and stockholders' equity	$102,909	$ 91,992	$ 95,058	$109,524	$173,007

References to Note numbers are references to the "Notes to Consolidated Financial Statements" of the Company beginning on page 27 of this report.

Results of Operations

Comparison of each of the fiscal years in the three-year period ended October 31, 1996:

Net Sales of Products

The following table summarizes the increases and decreases in net sales of products of the Company's CooperVision ("CVI") and CooperSurgical ("CSI") business units over the three-year period. Sales generated by the Company's CooperVision Pharmaceuticals ("CVP") unit were zero in 1996, $16 thousand in 1995 and $394 thousand in 1994.

	Increase (Decrease)			
	1996 vs. 1995		1995 vs. 1994	
	(Dollars in thousands)			
Business Unit				
CVI	$ 6,436	15%	$ 4,663	12%
CSI	$ 4,402	34%	$ (23)	—%

Consolidated net sales of products grew 20% in 1996 and 8% in 1995.

1996 vs. 1995

Net sales of CVI grew by 15%. The primary contributors to the growth were increased sales of the *Preference* spherical and *Preference Toric* product lines, which together grew approximately 70%. Sales of toric lenses to correct astigmatism, CVI's leading product group, grew by 35% year to year and now account for approximately one-half of its sales. The Company expects this trend to continue and considers itself to be well positioned to compete successfully in specialty niches of the contact lens market, particularly with its *Preference* line of planned replacement lenses and its line of custom toric lenses. CVI recently announced plans to double the capacity of its Scottsville, New York, facility where *Preference Toric* lenses are manufactured. These increases were partially offset by anticipated decreases in sales of more mature product lines.

Net sales of CSI increased 34%. Its gynecology product line grew by approximately 50%, primarily due to sales of *Unimar* and Blairden products which were acquired in April 1996 and June 1995, respectively. The effect of increased sales of gynecology products was partially offset by reduced sales of nonstrategic or nongynecologic products. CSI's sales mix continued to shift toward its gynecology product line, which now accounts for approximately 90% of its sales.

1995 vs. 1994

The primary contributors to CVI's growth in 1995 were increased sales of the *Preference* spherical product line and the *Hydrasoft* toric and *Preference Toric* product lines (the latter of which was launched in the fourth quarter of fiscal 1994). Sales of CVI's toric lenses in the United States grew by approximately 50% in 1995. Toric and other specialty lenses accounted for approximately two-thirds of CVI's total sales. The 1995 increases were partially offset by anticipated decreases in sales of more mature product lines. CVI's sales mix shifted toward daily wear, planned replacement and other specialty products and away from extended wear products.

Net sales of CSI products were essentially flat in 1995 as compared to 1994. Nearly 75% of CSI's net sales related to womens' healthcare products, as the unit continued to direct its sales efforts toward the gynecology market to take advantage of the lower cost to service a highly focused market niche.

Net Service Revenue

Net service revenue consists of the following:

	1996	1995	1994
	(In thousands)		
Net patient revenue	$43,013	$40,643	$42,611
Management fees	—	1,151	2,000
	$43,013	$41,794	$44,611

Net patient revenue by major providers was as follows:

	1996		1995		1994	
	(Dollars in thousands)					
	Amount	%Total	Amount	%Total	Amount	%Total
Commercial	$ 3,989	9%	$ 5,055	13%	$ 9,170	21%
Medicare	13,034	30	11,767	29	9,225	22
Medicaid	9,884	23	8,566	21	7,254	17
Blue Cross	3,617	9	4,015	10	4,729	11
HMOs	8,896	21	8,714	21	7,722	18
Other	3,593	8	2,526	6	4,511	11
	$43,013	100%	$40,643	100%	$42,611	100%

Net Patient Revenue

(See Note 1 "Net Service Revenue")

Net patient revenue grew 6% to $43 million in fiscal 1996. In each of the last three quarters of 1996, following the transition of the physician group at Hampton Hospital, Hospital Group of America Inc.'s ("HGA") revenue showed improving growth rates compared with the comparable quarter in 1995. Increased patient visits to outpatient and day treatment programs have helped offset pressure on revenue resulting from declining average length of stay. Outpatient revenue increased to approximately 12% of net patient revenue in 1996 from approximately 9% in 1995, and approximately 5% in 1994.

Net patient revenue decreased by $2.0 million or 5% in 1995. Revenue has been pressured by the current industry trend toward increased managed care, which results in decreased daily rates and declines in average lengths of stay. Management is endeavoring to mitigate those pressures by increasing the number of admissions to its hospitals and by providing outpatient and other ancillary services. In addition, management estimates that the dispute with the Hampton Medical Group, P.A. ("HMG"), which was settled in 1995 *(See Note 4.)*, reduced revenue during 1995 at Hampton Hospital by approximately $2 million compared with 1994.

Management Fees

On May 29, 1992, PSG Management, Inc. ("PSG Management"), a subsidiary of the Company, entered into a three-year management agreement with Progressions Health Systems, Inc. ("Progressions"), under which PSG Management managed three hospitals owned by Progressions, having a total of 220 licensed beds. PSG Management received a management fee of $166,667 per month under the agreement, which expired by its terms in May 1995.

Cost of Products Sold

Gross profit (net sales of products less cost of products sold) as a percentage of net sales of products ("margin") was as follows:

	Margin		
	1996	1995	1994
CVI	77%	73%	71%
CSI	51%	52%	48%
Consolidated	70%	68%	65%

CVI's margin has increased from 1994 through 1996 due to efficiencies associated with higher production levels, as well as a favorable product mix, reflecting the growth in sales of toric contact lenses, which have higher margins. CSI's 1996 margin decreased compared to 1995 due to the acquisition of *Unimar* products, which have slightly lower margins as compared to the Company's previous year's product mix. Cost reductions are underway, which management anticipates will improve future *Unimar* product line margins. CSI's 1995 margin increased compared to 1994 due to a favorable product mix in the United States. Internationally, a margin increase was primarily due to cost reductions accomplished within the LEEP product line. Also, 1994 CSI margins were impacted by a $200 thousand write-down of endoscopy inventory, which reduced margins by 2%.

Cost of Services Provided

Cost of services provided represents all normal operating costs (other than financing costs and amortization of intangibles) incurred by HGA in generating net service revenue. The results of subtracting cost of services provided from net service revenue is an operating profit of $2.8 million or 6% of net service revenue in 1996, $1.3 million or 3% of net service revenue in 1995 and $3.6 million or 8% of net service revenue in 1994. The 1996 increased percentage of operating profits as compared to 1995 is attributable to increased revenue, as described above, while cost of services were about the same as 1995. The decreased percentage of operating profits in 1995 compared with 1994 was primarily attributable to lower revenue as described above, partially offset by lower cost of services.

Research and Development Expense

Research and development expense was $1.2 million or 2% of net sales of products in 1996 compared to $2.9 million or 5% in 1995 and $4.4 million or 9% in 1994.

The decreases in 1996 and 1995 are primarily attributable to the Company's decision to discontinue development of its calcium channel blocker compound. This project accounted for 43% and 63% of consolidated research and development expense in 1995 and 1994, respectively. A 1996 vs. 1995 decrease of $418 thousand in CSI research and development reflected primarily the May 1995 discontinuance of the development of Innerdyne Inc.'s thermal endometrial ablation technology, begun in 1994, and on which CSI had spent approximately $600 thousand by mid 1995.

The Company currently anticipates that the level of spending on research and development has stabilized. The Company is focusing on acquiring products which will be marketable immediately or in the short-term, rather than on funding longer-term, higher risk research and development projects.

Selling, General and Administrative Expense

The Company's selling, general and administrative expense ("SGA") by business unit and corporate was as follows:

	1996	1995	1994
		(In thousands)	
CVI	$17,281	$15,949	$13,621
CSI	6,243	5,520	6,125
Corporate/Other	6,193	4,357	11,281
	$29,717	$25,826	$31,027

The increase in 1996 vs. 1995 Corporate/Other SGA is primarily due to the $1.3 million credits reflected in 1995 SGA as noted below. The 61% decrease in 1995 vs. 1994 Corporate/Other SGA reflects the resolution of various legal matters, a reduction in the level of corporate staffing, a credit of $648 thousand for the recovery of the Company's claim against the Cooper Laboratories, Inc. Liquidating Trust, representing the recovery of previously rendered administrative services, the reversal of a $649 thousand receivable reserve and certain other accruals no longer required and a significant reduction in the cost of the Company's Directors and Officers insurance.

SGA for CVI increased by 8% and 17% in 1996 vs. 1995 and 1995 vs. 1994, respectively. The increase in 1996 vs. 1995 relates to increased sales, and the increase in 1995 vs. 1994 was due primarily to costs associated with the successful launch of the *Preference Toric* line of contact lenses and the cost of programs associated with the launch of additional new products. As a percentage of sales, CVI's SGA was 35% in 1996, 38% in 1995 and 36% in 1994.

The 1996 increase in CSI SGA resulted primarily from the acquisition of Unimar. *(See Note 2.)* The 1995 decrease at CSI reflects savings generated by the consolidation of CSI facilities with attendant efficiencies.

Costs Associated With Restructuring Operations (See Note 5.)

In 1995, the Company recorded $1.5 million of restructuring costs to provide for costs primarily associated with the closure of facilities in the Company's CVP, CSI and corporate operations and downsizing HGA headquarters.

Amortization of Intangibles

Amortization of intangibles was $1.2 million in 1996, $859 thousand in 1995 and $843 thousand in 1994. In 1996, the Company accelerated $246 thousand of amortization for a use patent as a result of its decision to discontinue the development and outlicensing of its calcium channel blocker compound. The Company stopped funding this project in 1995. The balance of the changes in each year reflect acquisition activity during the three-year period. *(See Note 2.)*

Income From Operations

As a result of the variances discussed above, income from operations has improved by $16.4 million over the three-year period. Income from operations by business unit and Corporate/Other was as follows:

	October 31,		
	1996	1995	1994
		(In thousands)	
CVI	$ 19,065	$ 13,959	$ 11,963
CSI	1,667	(425)	(932)
HGA	2,573	878	3,321
Corporate/Other	(6,462)	(6,404)	(13,929)
	$ 16,843	$ 8,008	$ 423

Settlement of Disputes, Net (See Note 4.)

In fiscal 1996, the Company recorded a credit to income of $223 thousand related to the agreement which settled cross claims between HGA and Progressions related to purchase price adjustments (which were credited to goodwill) and other disputes. Pursuant to this agreement, HGA received $447 thousand in fiscal 1996 of which $223 thousand has been credited to settlement of disputes.

In 1995, the Company recorded a charge of $5.6 million for the settlement of the HMG dispute. This charge was partially offset by net credits to income of $2.0 million, which primarily represented cash received by the Company in connection with the settlement of other litigation matters.

In 1994, the Company recorded the following items related to settlement of disputes:

- A credit of $850 thousand following receipt of funds by the Company to settle certain of the Company's claims associated with a real estate transaction.
- A charge of $5.8 million which represented the Company's estimate of costs required to settle certain disputes and other litigation matters, including $3.5 million associated with the Company's criminal conviction and the related SEC enforcement action against the Company.

Investment Income (Loss), Net

Investment income (loss), net includes interest income of $250 thousand, $394 thousand and $377 thousand in 1996, 1995 and 1994, respectively. The decrease in interest income in 1996 reflects lower investment balances primarily as a result of the Company's use of cash for the acquisition of Unimar in April 1996. *(See Note 2.)* Also included in investment income, net for 1994 is a $530 thousand loss on the sale of marketable securities.

Interest Expense

Interest expense was $5.3 million in 1996, $4.7 million in 1995 and $4.5 million in 1994. The increase in interest expense for 1996 over 1995 is primarily related to the interest on $4,000,000 principal amount of notes issued in April 1996 in connection with the acquisition of Unimar, bearing interest at a rate of 12% per annum *(See Note 8.)* and accreted interest in 1996 related to the settlement of the HMG dispute. The increase in interest expense in 1995 was primarily a result of the increased borrowing related to a line of credit, partially offset by reduced interest expense due to an exchange offer and consent solicitation which occurred in the first quarter of fiscal 1994.

Provision for (Benefit of) Income Taxes

Details with regard to the Company's provision for (benefit of) income taxes for each of the years in the three-year period ended October 31, 1996 are set forth in Note 7. The 1996 provision for federal and state taxes of $275 thousand was offset by a reversal of $615 thousand of tax accruals no longer required and the recognition of an income tax benefit of $4.1 million from reducing the valuation allowance against net deferred tax assets. The 1995 provision for state income and franchise taxes of $315 thousand was partially offset by a reversal of $200 thousand of tax accruals no longer required. The 1994 provision for state income and franchise taxes of $400 thousand was offset by a reversal of $5.0 million of tax accruals no longer required following the successful resolution of certain tax issues.

Capital Resources & Liquidity

The financial condition of the Company continued to improve in fiscal 1996 and, in the opinion of management, is now reflective of an effectively competing commercial enterprise, unhampered by an inordinate level of litigation and other distractions. In 1996, the Company generated $16.8 million of income from operations, which was more than twice the amount generated in 1995. In addition, stockholders' equity improved by $17 million to $15.3 million vs. the deficit of over $1.7 million that existed at the end of fiscal 1995. As a result of the Company's improved financial strength and prospects, it was able, effective at the beginning of fiscal 1997, to decrease by two percentage points the interest rate on its $11 million HGA debt. The Company was also able to reduce by one percentage point the interest rate on CVI's $8 million line of credit.

Cash provided by the Company's operating activities rebounded from a negative $7.8 million in the traditionally lower first quarter to $11.3 million in the succeeding nine months. As a result, operating cash flow for fiscal 1996, at $3.5 million, achieved virtually the same level as in 1995. Higher operating cash flow levels in 1996 were precluded due to approximately $2 million in increased payments for certain settlements as well as additional investments in receivables and inventory reflective of growth in sales and ongoing launches of new products. Operating cash flow was negative $2 million in fiscal 1994.

Cash used by investing activities in 1996 was $6.5 million, driven by $3.2 million in capital expenditures and the acquisition of Unimar, Inc. in April for $3.9 million in cash and $4 million in 12% notes due in three years. The cash portion of the acquisition was funded primarily by cash on hand.

Cash used by financing activities in 1996 of $1.3 million reflected repayment of the HGA Industrial Revenue Bond. *(See Note 8.)* Financing activities were virtually neutral in 1995. The cash use of $6.9 million in fiscal 1994 related primarily to payments associated with a debt restructuring completed by the Company in January 1994.

Management believes that the Company is positioned to generate sufficient operating cash flow to fund its day-to-day needs and expects that operating cash flow will increase in the future. The Company further expects that operating cash flow for the first quarter of 1997 will continue to be below the other three quarters of 1997, but will compare favorably with the negative $7.8 million used in the first quarter of 1996, when the Company paid $3.1 million to Dr. Pottash. *(See Note 4.)* The balance of an additional $3.1 million due to HMG will be paid in two equal installments in the third quarters of fiscal 1997 and 1998. Items which continue to pressure first quarter operating cash flow include ongoing payments to Medical Engineering Corporation *(See Note 11.)* and employee incentive payments made in the first quarter.

The Company expects to spend approximately $7 million for purchases of property, plant and equipment in fiscal 1997, including approximately $1 million to be spent by CVI to expand its manufacturing facilities and $1.7 million to be spent by HGA to construct a residential treatment center in Indiana. The Company expects to finance the CVI expansion with credit facilities currently being negotiated, whereas the residential treatment center will be funded by cash on hand and credit facilities now in place, with a plan to refinance when construction is completed.

The Company regularly evaluates acquisition opportunities which, if pursued, it would intend to fund by a combination of cash then on hand, financing vehicles now in place and, where appropriate, other methods of raising capital as needed.

Inflation and Changing Prices

Inflation has had little effect on the Company's operations in the last three years.

Impact of Statements of Financial Accounting Standards Issued But Not Adopted

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. SFAS No. 123 applies to all transactions in which an entity acquires goods or services by issuing equity instruments such as common stock, except for employee stock ownership plans. SFAS No. 123 establishes a new method of accounting for stock-based compensation arrangements with employees which is fair value based. The statement encourages (but does not require) employers to adopt the new method in place of the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Companies may continue to apply the accounting provisions of APB No. 25 in determining net income, however, they must apply the disclosure requirements of SFAS No. 123. Companies that adopt the fair value based method of SFAS No. 123 would typically incur a higher compensation cost for fixed stock option plans and a different compensation cost for contingent or variable stock option plans. The recognition provisions and disclosure requirements of SFAS No. 123 are effective for fiscal years beginning after December 15, 1995. The Company will adopt the disclosure requirements in its 1997 fiscal year. Such adoption will have no impact on reported results.

Management's Statement

The financial statements and other financial information in this report are management's responsibility and were prepared according to generally accepted accounting principles. They include amounts based on management's informed estimates and judgments. Other financial information in this report is consistent with that in the financial statements.

The Company's accounting systems include controls to reasonably assure that assets are safeguarded and financial statements conform to generally accepted accounting principles. These systems are supplemented by selecting and training qualified personnel and by an organizational structure that provides for appropriate separation of duties.

The Board of Directors, through its Audit and Finance Committee of three outside directors, is responsible to determine that management fulfills its responsibilities regarding preparation of financial statements and maintenance of financial control over operations. The Audit and Finance Committee recommends to the Board of Directors appointment of the Company's independent certified public accountants subject to ratification by the stockholders. It meets regularly with management and the independent accountants. The independent accountants have complete access to the Audit and Finance Committee, without management present, to discuss auditing and financial reporting.

KPMG Peat Marwick LLP ("KPMG") has been the Company's independent certified public accountants since 1980 when the Company incorporated. KPMG provides an objective, independent review of management's discharge of its responsibilities relating to the fair presentation of the consolidated financial statements. Their report follows.

A. Thomas Bender
President and
Chief Executive Officer

Robert S. Weiss
Executive Vice President
and Chief Financial Officer

Independent Auditors' Report

The Board of Directors and Stockholders
The Cooper Companies, Inc.:

We have audited the accompanying consolidated balance sheets of The Cooper Companies, Inc. and subsidiaries as of October 31, 1996 and 1995 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended October 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Cooper Companies, Inc. and subsidiaries as of October 31, 1996 and 1995 and the results of their operations and their cash flows for each of the years in the three-year period ended October 31, 1996, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

San Francisco, California
December 9, 1996

Consolidated Statements of Operations

The Cooper Companies, Inc. and Subsidiaries

	Years Ended October 31,		
	1996	1995	1994
	(In thousands, except per share figures)		
Net sales of products	$ 66,118	$ 55,296	$ 51,034
Net service revenue	43,013	41,794	44,611
Net operating revenue	109,131	97,090	95,645
Cost of products sold	19,911	17,549	17,906
Cost of services provided	40,235	40,454	41,039
Research and development expense	1,176	2,914	4,407
Selling, general and administrative expense	29,717	25,826	31,027
Amortization of intangibles	1,249	859	843
Costs associated with restructuring operations	—	1,480	—
Income from operations	16,843	8,008	423
Provision for (benefit of) settlements of disputes	(223)	3,532	4,950
Investment income (loss), net	281	444	(153)
Other income, net	80	51	256
Interest expense	5,312	4,741	4,533
Debt restructuring costs	—	—	340
Income (loss) before income taxes	12,115	230	(9,297)
Provision for (benefit of) income taxes	(4,488)	115	(4,600)
Net income (loss)	16,603	115	(4,697)
Less preferred stock dividends	—	—	89
Net income (loss) applicable to common stock	$ 16,603	$ 115	$ (4,786)
Earnings (loss) per share	$ 1.41	$ .01	$ (.47)
Average number of common shares used to compute earnings per share	11,761	11,576	10,193

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

The Cooper Companies, Inc. and Subsidiaries

Assets

	October 31, 1996	October 31, 1995
	(In thousands)	
Current assets:		
Cash and cash equivalents	$ 6,837	$ 11,207
Trade and patient accounts receivable, less allowances of $1,969,000 in 1996, $2,241,000 in 1995	21,650	17,717
Inventories	10,363	9,570
Deferred tax asset	953	—
Prepaid expenses and other current assets	2,692	2,734
Total current assets	42,495	41,228
Property, plant and equipment at cost	49,306	46,597
Less accumulated depreciation and amortization	14,632	12,535
	34,674	34,062
Goodwill and other intangibles, net	21,468	14,933
Deferred tax asset	3,195	—
Other assets	1,077	1,769
	$ 102,909	$ 91,992

Liabilities and Stockholders' Equity (Deficit)

	October 31, 1996	October 31, 1995
	(In thousands)	
Current liabilities:		
Current installments of long-term debt	$ 844	$ 2,288
Borrowings under line of credit	—	1,025
Accounts payable	9,206	5,730
Employee compensation, benefits and severance	6,418	6,978
Other accrued liabilities	7,303	13,596
Accrued income taxes	9,537	9,996
Total current liabilities	33,308	39,613
Long-term debt	47,920	43,490
Other noncurrent liabilities	6,351	10,638
Total liabilities	87,579	93,741
Commitments and Contingencies *(See Note 11)*		
Stockholders' equity (deficit):		
Preferred stock, $.10 par value, shares authorized: 1,000,000; zero shares issued or outstanding	—	—
Common stock, $.10 par value, shares authorized: 20,000,000; issued and outstanding: 11,670,898 and 11,576,482 at October 31, 1996 and 1995, respectively	1,167	1,158
Additional paid-in capital	184,300	183,840
Translation adjustments	(326)	(333)
Accumulated deficit	(169,811)	(186,414)
Total stockholders' equity (deficit)	15,330	(1,749)
	$ 102,909	$ 91,992

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity (Deficit)

The Cooper Companies, Inc. and Subsidiaries

Years Ended October 31, 1996, 1995 and 1994

	Series B Preferred Stock		Common Stock		Additional Paid-In Capital	Translation Adjustments	Accumulated Deficit	Unamortized Restricted Stock Award Compensation	Total
	Shares	Par Value	Shares	Par Value					
	(In thousands)								
Balance October 31, 1993	345	$ —	10,043	$1,004	$181,819	$(223)	$(181,743)	$(405)	$ 452
Net loss	—	—	—	—	—	—	(4,697)	—	(4,697)
Aggregate translation adjustment	—	—	—	—	—	(173)	—	—	(173)
Restricted stock amortization and share issuance, forfeiture and lifting of restrictions	—	—	99	10	436	—	—	405	851
Exercise of stock options	—	—	1	—	2	—	—	—	2
Dividend requirements on Series-B Preferred Stock	—	—	—	—	—	—	(89)	—	(89)
Conversion of Series B Preferred to Common	(345)	—	1,150	115	(115)	—	—	—	—
Balance October 31, 1994	—	$ —	11,293	$1,129	$182,142	$(396)	$(186,529)	$ —	$(3,654)
Net income	—	—	—	—	—	—	115	—	115
Aggregate translation adjustment	—	—	—	—	—	63	—	—	63
Restricted stock amortization and share issuance, forfeiture and lifting of restrictions	—	—	176	18	1,526	—	—	—	1,544
Exercise of stock options	—	—	5	1	9	—	—	—	10
Exercise of warrants and warrant valuation	—	—	102	10	163	—	—	—	173
Balance October 31, 1995	—	$ —	11,576	$1,158	$183,840	$(333)	$(186,414)	$ —	$(1,749)
Net income	—	—	—	—	—	—	16,603	—	16,603
Aggregate translation adjustment	—	—	—	—	—	7	—	—	7
Restricted stock amortization and share issuance, forfeiture and lifting of restrictions	—	—	7	1	46	—	—	—	47
Exercise of stock options	—	—	22	2	117	—	—	—	119
Exercise of warrants and warrant valuation	—	—	66	6	297	—	—	—	303
Balance October 31, 1996	—	$ —	11,671	$1,167	$184,300	$(326)	$(169,811)	$ —	$15,330

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

The Cooper Companies, Inc. and Subsidiaries

	Years Ended October 31,		
	1996	1995 (In thousands)	1994
Cash flows from operating activities:			
Net income (loss)	$ 16,603	$ 115	$ (4,786)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Deferred income taxes	(4,148)	—	—
Depreciation expense	2,629	2,704	2,870
Provision for doubtful accounts	1,849	2,300	2,431
Amortization expenses:			
Intangible assets	1,249	992	975
Debt discount	(526)	(443)	(499)
Stock compensation expense	46	—	853
Net (gain) loss from:			
Sales of assets and businesses	—	—	(214)
Investments	—	—	530
Debt restructuring costs	—	—	340
Change in operating assets and liabilities excluding effects from acquisitions and sales of assets and businesses:			
Receivables	(4,998)	(1,918)	(5,373)
Inventories	(445)	2,126	3,291
Other assets	266	275	405
Accounts payable	166	(1,050)	2,311
Accrued liabilities	(4,488)	(2,000)	(925)
Income taxes payable	(459)	(109)	(4,732)
Other long-term liabilities	(4,287)	429	524
Net cash provided (used) by operating activities	3,457	3,421	(1,999)
Cash flows from investing activities:			
Sales of assets and businesses	532	173	2,720
Cash received from Progressions for purchase price adjustment	224	421	—
Purchases of assets and businesses	(4,080)	(821)	—
Purchases of property, plant and equipment	(3,182)	(2,185)	(938)
Sales of temporary investments	—	—	7,302
Net cash provided (used) by investing activities	$ (6,506)	$ (2,412)	$ 9,084

See accompanying notes to consolidated financial statements.

	Years Ended October 31,		
	1996	1995 (In thousands)	1994
Cash flows from financing activities:			
Payments associated with the Exchange Offer and Consent Solicitation including debt restructuring costs	$ —	$ —	$ (5,416)
Proceeds from (repayment of) line of credit, net	(1,025)	1,025	—
Proceeds from long-term note	1,320	—	—
Net payments of notes payable and current long-term debt	(1,808)	(1,270)	(1,462)
Proceeds from exercise of warrants and options	192	123	—
Net cash used by financing activities	(1,321)	(122)	(6,878)
Net increase (decrease) in cash and cash equivalents	(4,370)	887	207
Cash and cash equivalents at beginning of year	11,207	10,320	10,113
Cash and cash equivalents at end of year	$ 6,837	$ 11,207	$ 10,320
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest (net of amounts capitalized)	$ 4,880	$ 4,755	$ 4,791
Dividends on preferred stock	$ —	$ —	$ 89
Income taxes	$ 119	$ 224	$ 132

Supplemental disclosure of noncash investing and financing activities:

In April 1996, the Company purchased certain assets and assumed certain liabilities of Unimar, Inc., by paying $3.9 million in cash and issuing $4 million of notes. *(See Note 2.)*

Acquisition of Unimar, Inc.	
Fair value of assets acquired	$ 9,661
Less cash acquired	(404)
Less cash paid	(3,880)
Liabilities assumed, notes issued and acquisition costs accrued	$ 5,377

In January 1994, the Company completed an exchange offer and consent solicitation by issuing $22,000,000 of 10% Senior Subordinated Secured Notes due 2003 and paid approximately $4,350,000 in cash (exclusive of transaction costs) in exchange for approximately $30,000,000 of 10 5/8% Convertible Subordinated Reset Debentures due 2005. *(See Note 8.)*

See accompanying notes to consolidated financial statements.

NOTE 1.
Summary of Significant Accounting Policies

General

The Cooper Companies, Inc., (together with its subsidiaries, the "Company") develops, manufactures and markets healthcare products, including a range of hard and soft daily, flexible and extended wear contact lenses, and diagnostic and surgical instruments. The Company also provides healthcare services through the ownership of psychiatric facilities, and through May 1995, the management of three other such facilities. Intercompany transactions and accounts are eliminated in consolidation.

Foreign Currency Translation

Assets and liabilities of the Company's operations located outside the United States (primarily Canada) are translated at prevailing year-end rates of exchange. Related income and expense accounts are translated at weighted average rates for each year. Gains and losses resulting from the translation of financial statements in foreign currencies into U. S. dollars are recorded in the equity section of the consolidated balance sheets. Gains and losses resulting from the impact of changes in exchange rates on transactions denominated in foreign currencies are included in the determination of net income or loss for each period. Foreign exchange gains (losses) included in the Company's consolidated statement of operations for each of the years ended October 31, 1996, 1995 and 1994 were ($13,000), ($130,000) and $53,000, respectively.

Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during each of the reporting periods. Actual results could differ from those estimates.

Net Service Revenue

Net service revenue consists primarily of net patient revenue, which is based on the Hospital Group of America, Inc. ("HGA") hospitals' established billing rates less allowances and discounts for contractual programs. Payments under these programs are based on either predetermined rates or the cost of services. Settlements for retrospectively determined rates are estimated in the period the related services are rendered and are adjusted in future periods as final settlements are determined. Management believes that adequate provision has been made for adjustments that may result from the final determination of amounts earned under these programs. In 1996 and 1995, the Company received and recognized revenue of approximately $2,000,000 and $2,400,000, respectively, associated with prior year cost report settlements. Approximately 53%, 50% and 39%, respectively, of 1996, 1995 and 1994 net service revenue is from participation by hospitals in Medicare and Medicaid programs.

The Company provides care to indigent patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Company maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges at the Company's established rates foregone for charity care provided by the Company amounted to $2,275,000, $2,142,000 and $2,498,000 for fiscal 1996, 1995 and 1994, respectively. Hampton Hospital is required by its Certificate of Need to incur not less than 10% of total patient days as free care.

With respect to net service revenue, receivables from government programs represent the only concentrated group of potential credit risk to the Company. Management does not believe that there are any credit risks associated with these governmental agencies. Negotiated and private receivables consist of receivables from various payors, including individuals involved in diverse activities, subject to differing economic conditions, and do not represent any concentrated credit risks to the Company. Furthermore, management continually monitors and, where indicated, adjusts the allowances associated with these receivables.

Net Sales of Products

Net sales of products consist of sales generated by the Company's CooperVision ("CVI") and CooperSurgical ("CSI") businesses. The Company recognizes revenue net of appropriate provisions for returns when risk of ownership has transferred to the buyer.

With respect to net sales of products, management believes trade receivables do not include any concentrated groups of credit risk.

Cash and Cash Equivalents

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

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out or average cost basis, or market.

The components of inventories are as follows:

	October 31,	
	1996	1995
	(In thousands)	
Raw materials	$ 2,318	$ 2,212
Work-in-process	1,028	1,114
Finished goods	7,017	6,244
	$10,363	$ 9,570

Property, Plant and Equipment at Cost

	October 31,	
	1996	1995
	(In thousands)	
Land and improvements	$ 1,360	$ 1,360
Buildings and improvements	35,191	34,005
Machinery and equipment	12,755	11,232
	$49,306	$46,597

Depreciation is computed on the straight-line method in amounts sufficient to write-off depreciable assets over their estimated useful lives. Leasehold improvements are amortized over the shorter of their estimated useful lives or the period of the related lease. Building depreciation is based on estimated useful lives of 35 to 40 years, and all machinery and equipment are depreciated over 5 to 10 years.

Expenditures for maintenance and repairs are expensed; major replacements, renewals and betterments are capitalized. The cost and accumulated depreciation of depreciable assets retired or otherwise disposed of are eliminated from the asset and accumulated depreciation accounts, and any gains or losses are reflected in operations for the period.

Amortization of Intangibles

Amortization is provided for on all intangible assets (primarily goodwill, which represents the excess of purchase price over fair value of net assets acquired) on a straight-line basis over periods of up to 30 years. Accumulated amortization at October 31, 1996 and 1995 was $4,447,000 and $3,909,000, respectively. The Company assesses the recoverability of goodwill and other long-lived assets by determining whether the amortization of the related balance over its remaining life can be recovered through reasonably expected undiscounted future cash flows. Management evaluates the amortization periods of intangibles to determine whether later events and circumstances warrant revised estimates of useful lives.

Earnings (Loss) Per Share

Earnings (loss) per share is determined by using the weighted average number of common shares and common share equivalents (stock warrants and stock options) outstanding during each year (except where antidilutive). Fully diluted earnings (loss) per share is not materially different from primary earnings (loss) per share.

NOTE 2.
Acquisitions

In April 1996, the Company acquired the stock of Unimar, Inc., a leading provider of specialized disposable medical devices for gynecology, for $8,000,000 in cash and notes. Sales of Unimar products of $3,600,000 were included in the Company's results for fiscal 1996. Goodwill from the purchase has been recorded in the amount of $7,800,000, which is being amortized over 20 years. As part of the acquisition, the Company granted a warrant to purchase 83,333 shares of the Company's common stock for $11.375 per share. The warrant is valued at $231,000. The exercise period of the warrant is from April 11, 1999 to June 10, 1999. The number of shares and the exercise price per share are subject to adjustment as provided in the warrant.

In June 1995, CSI acquired from Blairden Precision Instruments the exclusive worldwide rights to The *RUMI* System uterine manipulator injector and related products for $1,000,000. No goodwill arose from the recording of this acquisition.

NOTE 3.
Stockholders Rights Plan

In October 1987, the Board of Directors of the Company declared a dividend distribution of one right for each outstanding share of the Company's common stock (a "Right"). Following the effectiveness of the one-for-three reverse stock split in September 1995, the number of Rights per share increased from one to three. Each Right entitles the holder to initially purchase from the Company a fraction of a share of participating preferred stock at an exercise price of $60.00, subject to adjustment. The Rights are exercisable only if a person or group acquires (an "Acquiring Person"), or generally obtains the right to acquire beneficial ownership of 20% or more of the Company's common stock, or commences a tender or exchange offer which would result in such person or group beneficially owning 30% or more of the Company's common stock. Once the Rights are exercisable, then under certain circumstances, including certain acquisitions of beneficial ownership of 30% or more of the Company's outstanding common stock and certain mergers or other business combinations, each holder of a Right, other than an Acquiring Person, will have the right to receive, upon exercise, shares of common stock of the Company, or of the acquiring company in such merger or other business combination or asset sale, having a value equal to two times the exercise price of the Right.

The Rights expire on October 29, 1997 and may generally be redeemed by the Company at a price of five cents per Right, at any time until the close of business on the tenth day following a public announcement that an Acquiring Person has acquired, or generally obtained the right to acquire, beneficial ownership of 20% or more of the Company's common stock. After the redemption period has expired, the Company's right of redemption may be reinstated if an Acquiring Person reduces his beneficial ownership to 10% or less of the outstanding shares of common stock in a transaction or series of transactions not involving the Company.

In June 1993, the Board of Directors amended the Rights Agreement, so that Cooper Life Sciences, Inc. ("CLS") and its affiliates and associates would not be Acquiring Persons thereunder as a result of CLS's beneficial ownership of more than 20% of the outstanding common stock of the Company by reason of its ownership of Series B Preferred Stock or common stock issued upon conversion thereof. In January 1995, the Rights Agreement was further amended to provide that any person who becomes the beneficial owner of 10% or more, but not more than 30%, of the outstanding common stock of CLS, would not be an Acquiring Person, provided that such person is not otherwise, and does not thereafter become, the beneficial owner of more than 1% of the Company's outstanding common stock. *(See "Agreements With CLS" in Note 12.)*

NOTE 4.
Settlement of Disputes, Net

In 1996 and 1995, the Company recorded the following items related to settlement of disputes:

- HGA and Progressions Health Systems, Inc. ("Progressions") agreed to settle certain purchase price adjustments (credited to goodwill) and other disputes in return for a series of payments to be made to HGA. Pursuant to this agreement, HGA received $853,000 of which $421,000 was credited to settlement of disputes in 1995 and $447,000 of which $223,000 was similarly credited in 1996.
- Under a 1985 agreement (the "HMG Agreement"), Hampton Medical Group ("HMG"), which is owned by Dr. A. L. C. Pottash, contracted to provide clinical and clinical administrative services at Hampton Psychiatric Institute ("Hampton Hospital"), the primary facility operated by Hospital Group of New Jersey, Inc. ("HGNJ"), a subsidiary of the Company's psychiatric hospital holding company, HGA. Subsequently, HGNJ delivered notices to HMG asserting that HMG had defaulted under the HMG Agreement based upon billing practices by HMG that HGNJ believed to be fraudulent.

The Company recorded a charge of $5,551,000 for the settlement of disputes with HMG and Dr. Pottash. Pursuant to the settlement, (i) the parties released each other from, among other things, claims underlying related arbitration, (ii) HGA purchased HMG's interest in the HMG Agreement on December 31, 1995, and (iii) HGNJ agreed to make certain payments to Dr. Pottash in respect of claims he had asserted. While only HMG and Dr. Pottash are parties to the settlement with HGA, HGNJ and the Company, the Company has not been notified of any claims by other third party payors or others relating to billing or other practices at Hampton Hospital. The settlement with HMG and Dr. Pottash resulted in a one-time charge with a present value of $5,551,000 to fourth quarter fiscal 1995 earnings. That charge reflects amounts paid to Dr. Pottash in December 1995 of $3,100,000 included in other current liabilities at October 31, 1995, as well as two payments scheduled to be made to HMG in May 1997 and 1998, each in the amount of $1,537,500.

- 1995 charges were partially offset by the receipt of a $915,000 refund for directors and officers insurance and a disgorgement of $648,000 from a former officer of the Company.

In 1994, the Company recorded the following items related to settlement of disputes:

- A credit of $850,000 following receipt of funds by the Company to settle certain claims made by the Company associated with a real estate transaction.
- A charge of $5,800,000, which represented the Company's estimate of costs required to settle certain disputes and other litigation matters including $3,450,000 associated with the criminal conviction and related SEC enforcement action, summarized below.

In January 1994, the Company was found guilty on six counts of mail fraud and one count of wire fraud based upon the conduct of a former Co-Chairman but was acquitted of charges of conspiracy and aiding and abetting violations of the Investment Advisers Act. The Company was sentenced and was ordered to make restitution of $1,310,166 which was paid in 1994. In addition, the Company was ordered to pay a noninterest bearing fine over three years in the amount of $1,831,568. Payments of $350,000 each were made in 1995 and 1996 with an additional payment of $1,131,568 payable on July 15, 1997. Also the Company settled in December 1994 a related SEC action under which the Company agreed to the disgorgement of $1,621,474 and the payment of a civil penalty of $1,150,000. A significant portion of the amounts imposed by the SEC were offset by disgorgement and fines in the related criminal action.

NOTE 5.
Costs Associated with Restructuring Operations

In the fourth quarter of 1995, the Company recorded $1,480,000 to provide for costs primarily associated with the closure of facilities, with attendant reductions in personnel, in the Company's CooperVision Pharmaceutical, Inc. ("CVP"), CSI and corporate operations and downsizing HGA headquarters. Approximately 85% of this provision related to severance benefits accrued for 16 employees, substantially all of which was paid by October 1996. The balance primarily reflected provisions for unproductive assets.

NOTE 6.
Financial Instruments

The fair values of the Company's financial instruments, including cash and cash equivalents, trade receivables, lines of credit, accounts payable, and accrued liabilities, approximated their carrying values as of October 31, 1996 because of the short maturity of these instruments.

The carrying amounts and fair values of the Company's 10% Notes and 10 L% Debentures follow:

	October 31, 1996	
	Carrying Amount	Fair Value
	(In thousands)	
10 L% Convertible Subordinated Reset Debentures Due 2005	$ 9,220	$10,591
10% Senior Subordinated Secured Notes Due 2003	24,285	21,065

The fair values of the 10% Notes and 10 5/8% Debentures, which are not regularly traded, are based on applicable quoted market prices.

The fair value of the Company's other long-term debt approximated the carrying value at October 31, 1996, as the debt was refinanced or entered into within the current fiscal year.

NOTE 7.

Income Taxes

The income tax provision (benefit) in the consolidated statements of operations consists of:

	Years Ended October 31,		
	1996	1995	1994
		(In thousands)	
Current			
Federal	$ 146	$ —	$ —
State	(486)	115	(4,600)
	(340)	115	(4,600)
Deferred			
Federal	(4,148)	—	—
State	—	—	—
	(4,148)	—	—
	$ (4,488)	$ 115	$(4,600)

A reconciliation of the provision for (benefit of) income taxes included in the Company's consolidated statements of operations and the amount computed by applying the federal income tax rate to income (loss) before income taxes follows:

	Years Ended October 31,		
	1996	1995	1994
		(In thousands)	
Computed expected provision for (benefit of) taxes	$ 4,119	$ 78	$(3,161)
Increase (decrease) in taxes resulting from:			
Income outside the United States subject to different tax rates	132	132	(65)
Amortization of intangibles	256	185	185
State taxes, net of federal income tax benefit	70	76	264
Reversal of prior years' estimated tax liabilities no longer required	(615)	(200)	(5,000)
Amortization of restricted stock compensation	—	—	(31)
Net operating losses for which no tax benefit was recognized	—	—	3,293
Interest expense related to original issue discount	(116)	(100)	(100)
Utilization of net operating loss carryforwards for which no tax benefit had been previously recognized	(4,406)	—	—
Change in valuation allowance	(4,148)	—	—
Other, net	220	(56)	15
Actual provision for (benefit of) income taxes	$(4,488)	$ 115	$(4,600)

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

	October 31, 1996	October 31, 1995
	(In thousands)	
Deferred tax assets:		
Accounts receivable, principally due to allowances for doubtful accounts	$ 1,030	$ 1,138
Inventories, principally due to obsolescence reserves	830	871
Investments, principally due to unrealized losses and other reserves	73	73
Accrued liabilities, principally due to litigation reserves and compensation accruals	2,507	4,868
Deferred income, principally due to the debenture exchange	1,066	1,258
Net operating loss carryforwards	79,681	81,871
Capital loss carryforwards	2,523	2,428
Tax credit carryforwards	2,705	2,560
Other	596	490
Total gross deferred tax assets	91,011	95,557
Less valuation allowance	(80,304)	(88,755)
Deferred tax assets	10,707	6,802
Deferred tax liabilities:		
Plant and equipment, principally due to purchase accounting requirements	(6,461)	(6,507)
Other, principally due to differences in accounting methods for financial and tax purposes	(98)	(295)
Deferred tax liabilities	(6,559)	(6,802)
Net deferred tax assets	$ 4,148	$ —

The net change in the total valuation allowance for the years ended October 31, 1996, 1995 and 1994 was a decrease of $8,451,000, an increase of $1,580,000 and an increase of $2,327,000, respectively. In the fourth quarter of 1996, the Company recognized an income tax benefit of $4,148,000 from reducing the valuation allowance based primarily on the significant improvements in the Company's 1996 operating results.

Subsequently recognized tax benefits relating to the valuation allowance as of October 31, 1996 will be allocated as follows to:

	(In thousands)
Consolidated statement of operations	$ 78,604
Goodwill and other intangible assets	1,700
	$ 80,304

At October 31, 1996 the Company had capital loss, net operating loss, and tax credit carryforwards for federal tax purposes expiring as follows:

Year of Expiration	Capital Losses	Operating Losses (In thousands)	Tax Credits
1998	$ 5,925	$ —	$ —
1999	1,216	147	867
2000	280	56	1,132
2001	—	70,473	202
2002	—	27,326	29
2003	—	1,378	330
2004	—	22,241	-
2005	—	11,006	—
2006	—	22,265	—
2007	—	22,058	—
2008	—	49,535	—
2009	—	6,553	—
2010	—	1,318	—
Indefinite life	—	—	145
	$ 7,421	$234,356	$ 2,705

NOTE 8.
Long-Term Debt

Long-term debt consists of the following:

	October 31, 1996	October 31, 1995
	(In thousands)	
10% Senior Subordinated Secured Notes due 2003 ("Notes")	$24,285	$24,816
10 5/8% Convertible Subordinated Reset Debentures due 2005 ("Debentures")	9,220	9,215
12% promissory notes ("Promissory Notes") due April 11, 1999	4,000	—
Bank term loan ("HGA Term Loan")	10,675	9,889
Industrial Revenue Bonds ("HGA IRB")	—	1,458
Capitalized leases, interest rates from 8% to 13% maturing 1999	584	400
	48,764	45,778
Less current installments	844	2,288
	$47,920	$43,490

Aggregate annual maturities for each of the five years subsequent to October 31, 1996 are as follows:

	(In thousands)
1997	$ 844
1998	$ 1,013
1999	$ 4,728
2000	$ 667
2001	$ 8,007

The aggregate principal amount of $21,943,000 of Notes matures on June 1, 2003 and interest is payable quarterly. The Notes are redeemable solely at the option of the Company, in whole or in part, at any time, at a redemption price of 100% of principal plus accrued and unpaid interest to the redemption date. The Company is not required to effect any mandatory redemptions or make any sinking fund payments with respect to the Notes, except in connection with certain sales or other dispositions of, or certain financings secured by, the collateral securing the Notes. Pursuant to a pledge agreement dated as of January 6, 1994, between the Company and the trustee for the holders of the Notes, the Company has pledged a first priority security interest in all of its rights, title and interest in stock of its subsidiaries HGA and CSI, all additional shares of stock of, or other equity interests in HGA and CSI from time to time acquired by the Company, all intercompany indebtedness of HGA and CSI from time to time held by the Company, except as set forth in the indenture governing the Notes, and the proceeds received from the sale or disposition of any or all of the foregoing. In accordance with a debt restructuring completed in January 1994, which was accounted for as a troubled debt restructuring, the Company recorded a deferred premium of $4,005,000. The Company is recognizing the benefit of the deferred premium as a reduction to the effective interest rate on the Notes over the remaining life of the Notes. The effective interest rate which includes the impact of the amortization of the deferred premium is 6.69%. As of October 31, 1996, the amount of the unamortized deferred premium was $2,342,000.

The aggregate principal amount of $9,290,000 of Debentures matures March 1, 2005. Interest at 10 5/8% per annum is paid semi-annually. The Debenture holders may convert Debentures into shares of the Company's common stock at $15.00 per share, subject to adjustments under certain conditions to prevent dilution to the holders. The difference between the carrying amount and the principal amount of the Company's Debentures represents unamortized discount which is being charged to expense over the life of the issue. The effective interest rate is 10.77%. As of October 31, 1996, the amount of unamortized discount was approximately $70,000.

The Debentures and the Notes each contain various covenants, including limitations on investments, incurrence and ranking of indebtedness, payment of cash dividends, acquisition of the Company's common stock and transactions with affiliates.

HGA Debt

Substantially all of the property and equipment and accounts receivable of HGA collateralize its outstanding debt. The HGA Term Loan was renegotiated on September 17, 1996. Terms of the amended agreement reduced the interest rate to two and one-half percentage points above the bank's prime rate and extended the loan maturity to August 1, 2001. Additionally, because HGA achieved targeted operating results, the interest rate was further reduced effective November 1, 1996 to a rate of two percentage points (2%) above the bank's prime rate, subject to a minimum of nine percent (9%). The rate in effect at October 31, 1996 and 1995 was 10.75% and 12.75%, respectively. Interest and principal payments on the HGA Term Loan are due monthly through August 2001. The HGA Term Loan contains covenants including the maintenance by HGA of certain ratios and levels of net worth (as defined), capital expenditures, interest and debt payments, as well as restrictions on payment of cash dividends. The HGA IRB carried interest at 85% of prime. The HGA IRB holders elected their right to accelerate all payments of outstanding principal at December 31, 1995. The outstanding balance of the HGA IRB totaling $1,320,000 at December 31, 1995 was paid, and the amount was rolled into the HGA Term Loan.

Loan and Security Agreement

In September 1994, CVI entered into a Loan and Security Agreement ("Line of Credit") with a commercial lender providing for revolving advances of up to $8,000,000, which was amended on April 18, 1996. On October 31, 1996 there were no amounts outstanding. Advances under the Line of Credit bear interest at one and one-half percentage points above the highest most recently announced prime rate of the three financial institutions of national repute named in the agreement, with a floor of 8.5% per annum. The rate in effect at October 31, 1996 was 9.75% per annum. The weighted average interest rate for 1995 was 11.38%. CVI agreed to the payment of various fees and minimum annual interest of $115,000. The amount of advances allowed under the agreement is capped at the lesser of $8,000,000, or a percentage of CVI's levels of eligible receivables and inventory as defined in the agreement (approximately $7,000,000 in total line availability at October 31, 1996) and is collateralized by virtually all of the assets of CVI.

The Line of Credit provides that CVI (provided that no Event of Default, as defined, has occurred and is continuing) may make loans, advances, investments, capital contributions and distributions to the Company, and pay management fees to the Company, so long as the total amount of all such amounts does not cause Tangible Net Worth (as defined in the Line of Credit) to be less than $3,000,000. At October 31, 1996, CVI had Tangible Net Worth of $12,534,000, of which $9,534,000 was unrestricted under the terms of the Loan and Security Agreement.

The Line of Credit contains various covenants, including the maintenance of certain ratios and levels of net worth (as defined), limitations on capital expenditures and incurrence of indebtedness as well as limitations regarding change in control and transactions with affiliates.

In connection with the Line of Credit, the Company guaranteed all of the obligations under the HGA Term Loan and CVI's obligations under the Line of Credit, and the Company pledged all of the outstanding stock of CVI as collateral for the HGA Term Loan guaranty.

In October 1996, CVI obtained a lease line of credit providing for borrowings of up to $500,000 from a commercial leasing company. Proceeds under the lease line are to be used to finance the purchase of equipment from the leasing company. The interest rate on each lease will be determined by the lender. At October 31, 1996, the Company had not drawn on the lease line.

Promissory Notes

In April 1996, Cooper Healthcare Group, Inc. (a subsidiary of the Company) acquired Unimar, Inc. *(See Note 2.)* and issued Promissory Notes for $4,000,000 principal amount, bearing an interest rate of 12% per annum, maturing April 1999. Interest is paid annually. The Promissory Notes are collateralized by a security interest in the shares of the common stock of Unimar, Inc., and payment is guaranteed by the Company.

NOTE 9.
Employee Stock Plans

1988 Long-Term Incentive Plan ("LTIP")

The LTIP is a vehicle for the Company to attract, retain and motivate its key employees and consultants, who are directly linked to the profitability of the Company and to increasing stockholder value.

The LTIP authorizes a committee consisting of three or more individuals not eligible to participate in the LTIP or the Company's Board of Directors, to grant to eligible individuals during a period of ten years from September 15, 1988, stock options, stock appreciation rights, restricted stock, deferred stock, stock purchase rights, phantom stock units and long-term performance awards for up to 2,125,570 shares of common stock, subject to adjustment for future stock splits, stock dividends, expirations, forfeitures and similar events. Options generally vest based on the Company's stock price, however, in some cases, both stock price and time are used as criteria. In July 1996, two officers of the Company were granted special options totaling 280,000 shares. These shares will vest in four tranches upon the achievement of specific prices of the Company's common stock within prescribed periods. As of October 31, 1996, 502,727 shares remained available under the LTIP for future grants. Restricted shares of zero, 176,196 and 99,259 were granted under the plan in fiscal 1996, 1995 and 1994, respectively. Restricted shares with restrictions in place were 16,529, 91,659 and 54,444 on October 31, 1996, 1995 and 1994, respectively.

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

In March 1996, the Company's stockholders approved a proposal to reduce the annual cash stipend paid to Non-Employee Directors and to award grants of restricted stock and options which are to be awarded annually at the start of each fiscal year. Specifically, each Non-Employee Director will be awarded the right to purchase restricted stock worth $7,500 for $0.10 per share (or $9,375 in the case of the Chairman of the Board who is a Non-Employee Director) by January 15 of the year following the date the grant was made. Grants of restricted stock that are not exercised by such date will expire. The restrictions on the restricted stock will lapse on the earlier to occur of the stock reaching certain target values or by the fifth anniversary of the date of grant. In addition, each Non-Employee Director was granted an option to purchase 5,000 shares of the Company's common stock in fiscal 1996 and will be granted 3,333 shares in each subsequent fiscal year (or, in the case of the Chairman of the Board who is a Non-Employee Director, 6,250 shares in fiscal 1996 and 4,167 shares in each subsequent fiscal year) through fiscal 2000. A total of 215,000 shares of the Company's authorized but unissued common stock have been reserved for issuance under the plan. As of October 31, 1996, 176,357 shares remained available under the 1996 NEDRSP for future grants. Restricted shares of 7,393 were granted under the 1996 NEDRSP in fiscal 1996, and there were no shares with restrictions in place outstanding on October 31, 1996.

1990 Non-Employee Directors Restricted Stock Plan ("1990 NEDRSP")

Under the terms of the 1990 NEDRSP, a total of 33,333 shares of common stock were authorized and reserved for issuance. A total of 18,333 shares of restricted stock with restrictions removed were awarded under this plan. Upon approval by the Company's stockholders of the 1996 NEDRSP, the 1990 NEDRSP terminated.

Transactions involving the granting of options of the Company's common stock in connection with the LTIP and the 1996 NEDRSP are summarized below.

	Number of Shares	
	LTIP	1996 NEDRSP
Outstanding at October 31, 1993	178,075	—
Options granted	136,667	—
Options exercised at $1.68 per share	(1,073)	—
Options forfeited	(48,113)	—
Outstanding at October 31, 1994	265,556	—
Options granted	131,121	—
Options exercised at $1.68 to $2.07 per share	(5,153)	—
Options forfeited	(62,683)	—
Outstanding at October 31, 1995	328,841	—
Options granted	441,111	31,250
Options exercised at $1.68 to $7.68 per share	(15,505)	(6,250)
Options forfeited	(39,785)	—
Outstanding at October 31, 1996 (219,164 and 25,000 shares exercisable, respectively)	714,662	25,000

Options issued and outstanding at October 31, 1996 have option prices ranging from $1.68 to $34.00 per share.

The excess of market value over $.10 per share of LTIP, 1990 NEDRSP and 1996 NEDRSP restricted shares on respective dates of grant is initially recorded as unamortized restricted stock award compensation, a separate component of stockholders' equity and charged to operations as earned. Restricted shares and other stock compensation charged against income from operations for the years ended October 31, 1996, 1995 and 1994 was $46,000, zero and $55,000, respectively.

Old Stock Option Plans

On October 31, 1996, there were 7,483 shares outstanding with option prices ranging from $48.39 - $59.25 per share under old stock option plans.

NOTE 10.
Employee Benefits

The Company's Retirement Income Plan

The Company's Retirement Income Plan (the "Plan") covers substantially all full-time United States employees of CVI and the Company's corporate headquarters. The Company's contributions are designed to fund normal cost on a current basis and to fund over thirty years the estimated prior service cost of benefit improvements (fifteen years for annual gains and losses). The unit credit actuarial cost method is used to determine the annual cost. The Company 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 participations in equity and fixed income funds. The measurement date for assumptions used in developing the projected benefit obligation was changed to August 31 during fiscal 1996.

Net periodic pension cost of the Plan was as follows:

	Years Ended October 31,		
	1996	1995	1994
	(In thousands)		
Service cost	$ 256	$ 188	$ 173
Interest cost	598	521	479
Actual return on assets	(1,047)	(982)	(531)
Net amortization and deferral	488	491	2
Net periodic pension cost	$ 295	$ 218	$ 123

The actuarial present value of benefit obligations and funded status for the Plan was as follows:

	October 31,	
	1996	1995
	(In thousands)	
Vested benefit obligation	$7,049	$7,250
Non-vested benefit obligation	24	77
Accumulated benefit obligation	7,073	7,327
Projected compensation increases	887	825
Projected benefit obligation	7,960	8,152
Fair value of plan assets	7,204	6,545
Projected benefit obligation in excess of assets	756	1,607
Add (Deduct):		
Unrecognized net gain (loss)	538	(386)
Contributions made 8/31/96 to 10/31/96	(335)	—
Prior service cost remaining to be amortized, including unrecognized net asset	(382)	(439)
Pension liability recognized	$ 577	$ 782

Assumptions used in developing the projected benefit obligation were as follows:

	August 31, 1996	October 31, 1995
Discount rate on plan liabilities	8.0%	7.5%
Long-range rate of return on plan assets	9.0%	9.0%
Salary increase rate	6.0%	6.0%

The Company's 401(k) Savings Plan

The Company's 401(k) Savings Plan provides for the deferral of compensation as described in the Internal Revenue Code and is available to substantially all full-time United States employees of the Company. Employees who participate in the 401(k) Plan may elect to have from 2% to 10% (1% to 16%, beginning October 1, 1996 for employees whose salary is less than $66,000 annually) of their pre-tax salary or wages, (but not more than $5,000 for employees whose salary is more than $66,000 annually) for the calendar year ended December 31, 1996, deferred and contributed to the trust established under the Plan. The Company's contribution on account of participating employees, net of forfeiture credits, was $102,000, $95,000 and $80,000 for the years ended October 31, 1996, 1995 and 1994, respectively.

The Company's Incentive Payment Plan

The Company's Incentive Payment Plan is available to officers and other key executives. Participants may, in certain years, receive bonuses based on performance. Total payments earned for the years ended October 31, 1996, 1995 and 1994, were approximately $1,753,000, $1,504,000 and $1,296,000, respectively.

The Company's Turn Around Incentive Plan

The Turn Around Incentive Plan ("TIP") was adopted in 1993 to recognize the special efforts of certain individuals in guiding the Company through certain difficulties that existed at that time related to the Company's then capital structure and its former ownership of companies that manufactured and distributed breast implants. All provisions of the TIP have been met, and all required payments have been made to participants as follows:

In May 1994 participants received an aggregate payment of approximately $247,000 cash and approximately 99,000 shares of restricted stock from which all restrictions were removed in May 1996.

In August 1995 participants received an aggregate payment of approximately $476,000 cash and approximately 97,000 shares of restricted stock. Restrictions from one-half of these shares were removed in August 1996, and the restrictions on the balance of the shares will be removed in August 1997.

NOTE 11.
Commitments, Contingencies and Pending Litigation

Total minimum annual rental obligations (net of sublease revenue of approximately $173,000 per year through March 2000) under noncancelable operating leases (substantially all real property or equipment) in force at October 31, 1996 are payable in subsequent years as follows:

	(In thousands)
1997	$1,473
1998	1,051
1999	808
2000	766
2001	597
2002 and thereafter	913
	$5,608

Aggregate rental expense for both cancelable and noncancelable contracts amounted to $2,508,000, $2,354,000 and $2,438,000 in 1996, 1995 and 1994, respectively.

An agreement was reached in September 1993 with Medical Engineering Corporation ("MEC"), a subsidiary of Bristol-Myers Squibb Company, which limited the Company's contingent liabilities associated with breast implant litigation involving a former division of the Company (the "MEC Agreement"). The remaining liability recorded for payments to be made to MEC under the MEC Agreement become due as follows:

December 31,	(In thousands)
1996	$1,750
1997	2,000
1998	2,500
	$6,250

Additional payments to be made to MEC beginning December 31, 1999 are contingent upon the Company's earning net income before taxes in each fiscal year beginning with fiscal 1999, and are, therefore, not recorded in the Company's financial statements. Such payments are limited to the smaller of 50% of the Company's net income before taxes in each such fiscal year on a noncumulative basis or the amounts shown below:

December 31,	(In thousands)
1999	$3,000
2000	$3,500
2001	$4,000
2002	$4,500
2003	$3,000

Under the terms of a supply agreement most recently modified in 1993, the Company agreed to purchase by December 31, 1997, certain contact lenses from Pilkington plc, with an aggregate cost of approximately £4,063,000. Lenses with an aggregate value of approximately £520,000, £477,000 and £400,000 were purchased under the terms of the supply agreement in fiscal 1996, 1995 and 1994, respectively. As of December 31, 1996, there remained a commitment of approximately £2,354,000.

Payments amounting to $3,100,000 were made related to a settlement with HMG *(See Note 4.)* in December 1995. Two additional payments which are accreting imputed interest are scheduled to be made to HMG in May 1997 and 1998, each in the amount of $1,537,500. The October 31, 1996 classifications and carrying values are $1,399,000 in accounts payable and $1,331,000 in other noncurrent liabilities. These amounts were charged against net income in fiscal 1995.

Warrants

The Company issued a warrant to Foothill Capital Corporation ("Foothill") to purchase 26,666 shares of the Company's common stock at $5.625 per share in connection with the loan and security agreement among Foothill, CVI, and CooperVision Canada. *(See Note 8 "Loan and Security Agreement.")* The warrant becomes exercisable on September 21, 1997 and expires on May 26, 1999. Both the number of shares under the warrant and the exercise price per share are adjustable under certain circumstances to avoid dilution.

The Company granted a warrant to purchase 83,333 shares of the Company's common stock at $11.375 per share, as part of the acquisition of Unimar, Inc. *(See Note 2.)* The exercise period of the warrant is from April 11, 1999 to June 10, 1999. The number of shares and the exercise price per share are subject to adjustment as provided in the warrant.

Pending Litigation

The Company is a defendant in a number of legal actions relating to its past or present businesses in which plaintiffs are seeking damages. In the opinion of Management, after consultation with counsel, the ultimate disposition of those actions will not materially affect the Company's financial position or results of operations.

The Company was named as a nominal defendant in a stockholder derivative action entitled *Harry Lewis and Gary Goldberg v. Gary A. Singer, Steven G. Singer, Arthur C. Bass, Joseph C. Feghali, Warren J. Keegan, Robert S. Holcombe and Robert S. Weiss,* which was filed on May 27, 1992 in the Court of Chancery, State of Delaware, New Castle County. Lewis and Goldberg subsequently amended their complaint, and the Delaware Chancery Court consolidated the amended complaint with a similar complaint filed by another plaintiff as *In re The Cooper Companies, Inc. Litigation,* Consolidated C.A. 12584. The Lewis and Goldberg amended complaint was designated as the operative complaint (the "Derivative Complaint").

The Derivative Complaint alleges that certain directors of the Company and Gary A. Singer, as Co-Chairman of the Board of Directors, caused or allowed the Company to be a party to a "trading scheme" to "frontrun" high yield bond purchases by the Keystone Custodian Fund, Inc., a group of mutual funds. The Derivative Complaint also alleges that the defendants violated their fiduciary duties to the Company by not vigorously investigating certain allegations of securities fraud. The Derivative Complaint requests that the Court order the defendants (other than the Company) to pay damages and expenses to the Company and certain of the defendants to disgorge their profits to the Company.

The parties have been engaged in negotiations and had agreed upon the terms of a settlement. Although the proposed settlement was submitted to the Court for approval following notice to the Company's stockholders and a hearing, Plaintiffs have decided not to proceed with the settlement in its present form, and the parties have reopened settlement discussions. There can be no assurance that the current discussions will ultimately end the litigation. The individual defendants have advised the Company that they believe they have meritorious defenses to the lawsuit and that, in the event the case proceeds to trial, they intend to defend vigorously against the allegations in the Derivative Complaint.

The Company was also named as a nominal defendant in a stockholder derivative action entitled *Bruce D. Sturman v. Gary A. Singer, Steven G. Singer, Brad C. Singer, Dorothy Singer as the Executrix of the Estate of Martin Singer, Karen Sue Singer, Norma Singer Brandes, Normel Construction Corp., Brandes & Singer, and Romulus Holdings, Inc.,* which was filed on June 6, 1995 in the Court of Chancery of the State of Delaware, New Castle County. The complaint is similar to a derivative complaint filed by Mr. Sturman in the Supreme Court of the State of New York on May 26, 1992, which was dismissed under New York Civil Practice Rule 327(a) on August 17, 1993. The dismissal of the New York case was affirmed by the Appellate Division on March 28, 1995. The allegations in the Delaware complaint filed by Mr. Sturman relate to substantially the same facts and events at issue in *In re The Cooper Companies, Inc. Litigation* described above, and similar relief is sought. The parties had agreed that Mr. Sturman's Delaware action would be consolidated into and tentatively settled with *In re The Cooper Companies, Inc. Litigation.*

NOTE 12.
Relationships and Transactions between the Company and CLS

Agreements with CLS

On June 14, 1993, the Company entered into a Settlement Agreement with CLS (the "Settlement Agreement") in order to resolve all then pending disputes with CLS and to avoid a costly and disruptive proxy fight, while continuing to maintain a Board of Directors, the majority of whose members are independent. Pursuant to the Settlement Agreement, among other things, the Company agreed to nominate and use its reasonable best efforts to cause, and CLS agreed to vote all shares of Common Stock of the Company owned by it in favor of, the election of a Board of Directors of the Company consisting of eight members, five of whom were designated by the Company (of which a majority would not be employees of the Company or employees, affiliates or significant stockholders of CLS), and three by CLS. Such agreements were to terminate on June 14, 1995, subject to earlier termination or extension under certain circumstances, and were later extended to, and expired on, October 31, 1996. Following such termination and through June 12, 2022, pursuant to the Settlement Agreement, CLS continues to have the right that it had pursuant to a 1992 settlement agreement with the Company to designate two directors of the Company, so long as CLS continues to own at least 800,000 shares of Common Stock, or one director, so long as it continues to own at least 333,333 shares of Common Stock.

Pursuant to this provision, Donald Press and Steven Rosenberg continue to serve as directors designated by CLS. In addition, the Board of Directors, other than the CLS designees, determined to continue Moses Marx as a non CLS designated director of the Company.

Prior to September 1994, CLS had an investment in the Company's Series B Preferred Stock having an aggregate liquidation preference of $3,450,000 and a par value of $.10 per share (the "1993 Exchange Agreement"). Such shares, and any shares of Series B Preferred Stock issued as dividends, were convertible into one share of common stock of the Company for each $3.00 of liquidation preference, subject to customary antidilution adjustments.

The Company also had the right to compel conversion of Series B Preferred Stock at any time after the market price of the common stock on its principal trading market averaged at least $4.125 for 90 consecutive calendar days and closed at not less than $4.125 on at least 80% of the trading days during such period. On September 26, 1994, the Company's common stock met the above requirements, and the Series B Preferred Stock was converted into 1,150,000 shares of the Company's common stock.

Other

CLS was formerly an 89.5% owned subsidiary of the Company's former parent, Cooper Laboratories, Inc.

As of December 31, 1996, CLS owned 1,963,233 shares (or approximately 16.83%) of common stock of the Company.

Two members of the Company's Board of Directors are also directors and/or officers of CLS. Moses Marx is a Director of CLS (and is the controlling stockholder of CLS). Steven Rosenberg is serving as Acting President, Vice President and Chief Financial Officer of CLS and he is also a Director of CLS. In addition to shares purchased on the open market, Mr. Marx owns 3,037 shares and Mr. Rosenberg owns 3,370 shares of the Company's common stock, obtained through the NEDRSP. *(See Note 9.)*

NOTE 13.
Business Segment Information

The Company's operations are attributable to three business segments:

- HGA, which provides healthcare services for inpatient and outpatient treatment and partial hospitalization programs through the ownership and operation of certain psychiatric facilities, and through May 1995 also managed three other such facilities,
- CVI, which develops, manufactures and markets a range of contact lenses, and
- CSI, which develops, manufactures and distributes diagnostic and surgical equipment instruments and disposables, primarily for gynecology.

Total net revenue by business segment represents service and sales revenue as reported in the Company's consolidated statements of operations. Operating income (loss) is total net revenue less cost of products sold (or services provided, in the case of HGA revenue), research and development expenses, selling, general and administrative expenses, costs of restructuring and amortization of intangible assets. Corporate operating loss is principally corporate headquarters expense. Investment income, net, settlement of disputes, net, debt restructuring costs, gain on sales of assets and businesses, net, other income (expense), net, and interest expense were not allocated to individual business.

Identifiable assets are those assets used in continuing operations (exclusive of cash and cash equivalents). Corporate assets include cash and cash equivalents and temporary investments.

Information by business segment for each of the years in the three-year period ended October 31, 1996 follows:

	HGA	CVI	CSI	Corporate & Eliminations	Consolidated
1996			(In thousands)		
Net revenue from non-affiliates	$43,013	$ 48,892	$17,226	$ —	$109,131
Operating income (loss)	$ 2,573	$ 19,065	$ 1,667	$ (6,462)	$ 16,843
Investment income, net					281
Settlement of disputes, net					223
Other income (expense), net					80
Interest expense					(5,312)
Income before income taxes					$ 12,115
Identifiable assets	$49,051	$ 23,756	$18,089	$ 12,013	$102,909
Depreciation Expense	$ 1,511	$ 800	$ 236	$ 82	$ 2,629
Amortization Expense	$ 205	$ 314	$ 461	$ 269	$ 1,249
Capital Expenditures	$ 1,431	$ 1,293	$ 404	$ 54	$ 3,182
1995					
Net revenue from non-affiliates	$41,794	$ 42,456	$12,824	$ 16	$ 97,090
Operating income (loss)	$ 878	$ 13,959	$ (425	$ (6,404	$ 8,008
Investment income, net					444
Settlement of disputes, net					(3,532
Other income (expense), net					51
Interest expense					(4,741
Income before income taxes					$ 230
Identifiable assets	$48,086	$ 21,965	$ 8,953	$ 12,988	$ 91,992
Depreciation Expense	$ 1,443	$ 863	$ 288	$ 110	$ 2,704
Amortization Expense	$ 205	$ 448	$ 317	$ 22	$ 992
Capital Expenditures	$ 335	$ 1,449	$ 267	$ 134	$ 2,185
1994					
Net revenue from non-affiliates	$44,611	$ 37,793	$12,847	$ 394	$95,645
Operating income (loss)	$ 3,321	$ 11,963	$ (932)	$(13,929)	$ 423
Investment income (loss), net					(153)
Settlement of disputes, net					(4,950)
Debt restructuring costs					(340)
Gain on sale of assets and businesses, net					214
Other income (expense), net					42
Interest expense					(4,533)
Loss before income taxes					$(9,297)
Identifiable assets	$50,522	$ 22,814	$ 9,289	$ 12,433	$95,058
Depreciation expense	$ 1,387	$ 1,025	$ 339	$ 119	$ 2,870
Amortization expense	$ 205	$ 448	$ 302	$ 22	$ 977
Capital expenditures	$ 338	$ 524	$ 58	$ 18	$ 938

Corporate Information

The Cooper Companies, Inc.

Board of Directors:

Allan E. Rubenstein, M.D.
President MTC Imaging Services, Inc.
Chairman

A. Thomas Bender
President and Chief Executive Officer

Mark A. Filler
Executive Vice President
Prism Mortgage Company

Michael H. Kalkstein
Partner
Graham & James

Moses Marx
General Partner
United Equities

Donald Press
Executive Vice President
Broadway Management Co., Inc.

Steven Rosenberg
Vice President and Chief Financial Officer,
Cooper Life Sciences, Inc.

Robert S. Weiss
Executive Vice President, Treasurer
and Chief Financial Officer

Committees of the Board:

Audit and Finance Committee
Steven Rosenberg (Chairman)
Mark A. Filler
Donald Press

Compensation Committee
Michael H. Kalkstein (Chairman)
Mark A. Filler
Donald Press
Allan E. Rubenstein, M.D.

Management Committee
Allan E. Rubenstein, M.D. (Chairman)
Mark A. Filler
Donald Press

Nominating Committee
Allan E. Rubenstein, M.D. (Chairman)
Michael H. Kalkstein
Moses Marx

Officers:

A. Thomas Bender
President and Chief Executive Officer
and President, CooperVision, Inc.

Robert S. Weiss
Executive Vice President, Treasurer
and Chief Financial Officer

Gregory A. Fryling
Vice President Corporate Development

Carol R. Kaufman
Vice President of Legal Affairs, Secretary
and Chief Administrative Officer

Nicholas J. Pichotta
President
CooperSurgical, Inc.

Mark R. Russell
President
Hospital Group of America

Stephen C. Whiteford
Vice President and Corporate Controller

Principal Subsidiaries:

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Publications and Information:

Corporate information, including the current share price, recent news releases and the Company's annual report on Form 10-K without exhibits, is available free of charge through the Company's interactive stockholder communication system. Call 1-800-334-1986, seven days a week, 24 hours a day. Visit The Cooper Companies, Inc. on the World Wide Web at www.coopercos.com.

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B. Norris Battin
10 Faraday
Irvine, CA 92618-1850
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Fax: (714) 597-0662

Common Stock Price Range

	Year Ended October 31, 1996		1995	
Quarter Ended	High	Low	High	Low
January 31	8	5L	8L	6
April 30	11J	6K	8L	5G
July 31	13J	9L	9I	5G
October 31	15J	10I	11G	5M

At December 31, 1996 and 1995 there were 2,845 and 3,067 common stockholders of record respectively.

Annual Meeting of Shareholders

The next annual meeting of stockholders of The Cooper Companies, Inc. will be held on March 25, 1997 at the Marriott East Side Hotel, New York, NY at 10:00 A.M.

Transfer Agent

American Stock Transfer & Trust Company
40 Wall Street, New York, NY 10005

Certified Public Accountants

KPMG Peat Marwick LLP

Stock Exchange Listings

The New York Stock Exchange
The Pacific Stock Exchange
Ticker Symbol "COO"

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