BAUSCH & LOMB INC
Form 10-Q
May 30, 2007

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **April 1, 2006**

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___ to _

Commission File Number: **1-4105**

BAUSCH & LOMB INCORPORATED
(Exact name of registrant as specified in its charter)

NEW YORK	**16-0345235**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
ONE BAUSCH & LOMB PLACE, ROCHESTER, NEW YORK	**14604-2701**
(Address of principal executive offices)	(Zip Code)

585.338.6000
(Registrant's telephone number, including area code)

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

The number of shares of Voting stock of the registrant outstanding as of April 28, 2007 was 54,377,800 consisting of 54,348,620 shares of Common stock and 29,180 shares of Class B stock which are identical with respect to dividend and liquidation rights, and vote together as a single class for all purposes.

Part I — Financial Information

Item 1. Financial Statements

The accompanying unaudited interim consolidated financial statements of Bausch & Lomb Incorporated and Consolidated Subsidiaries have been prepared by the Company in accordance with the accounting policies stated in the Company's Form 10-K for the year ended December 31, 2005 (2005 Form 10-K) and should be read in conjunction with the Notes to Financial Statements appearing therein, and are based in part on approximations. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America have been included in these unaudited interim consolidated financial statements.

The Company filed its 2005 Form 10-K on February 7, 2007. As more fully described in *Item 8. Financial Statements and Supplementary Data* under *Note 2 — Restatement* of the Company's 2005 Form 10-K, Bausch & Lomb restated its consolidated balance sheet, its consolidated statements of income, of changes in shareholders' equity and of cash flows as of December 25, 2004 and for the fiscal years 2003 and 2004. In addition, the Company restated selected financial data as of 2003, 2002 and 2001 and for fiscal years 2002 and 2001. See *Item 8. Financial Statements and Supplementary Data* under *Note 22 — Quarterly Results, Stock Prices and Selected Financial Data (Unaudited)* of the 2005 Form 10-K and beginning shareholders' equity for the impact of the restatement for periods prior to 2001. The impact of the restated financial results for the first and second quarterly periods of 2005 and the quarterly periods of 2004 are also presented in *Item 8. Financial Statements and Supplementary Data* under *Note 22 — Quarterly Results, Stock Prices and Selected Financial Data (Unaudited)* of the 2005 Form 10-K.

The restatement corrected for errors made in the application of generally accepted accounting principles (GAAP), including revenue recognition, accounting for reserves, accounting for foreign currency adjustments, accounting for income taxes including income taxes payable, tax reserves, deferred income tax assets and liabilities, related valuation allowances and income tax expense, and the accounting for the Company's Long-Term Deferred Compensation Plan. For a discussion of the significant restatement adjustments and the background leading to these adjustments, see *Item 8. Financial Statements and Supplementary Data* under *Note 2 — Restatement* and *Note 22 — Quarterly Results, Stock Prices and Selected Financial Data (Unaudited)* of the 2005 Form 10-K.

The Company has not amended its Annual Reports on Form 10-K or its Quarterly Reports on Form 10-Q for periods affected by the restatement adjustments, and accordingly the financial statements and related financial information contained in such reports should not be relied upon.

All amounts in this Quarterly Report on Form 10-Q affected by the restatement adjustments reflect such amounts as restated.

The Company filed its Annual Report on Form 10-K for fiscal 2006 (2006 Form 10-K) on April 25, 2007.

Bausch & Lomb Incorporated and Consolidated Subsidiaries
Statements of Income

Dollar Amounts in Millions - Except Per Share Data	(Unaudited) First Quarter Ended **April 1, 2006**	(Restated) March 26, 2005
Net Sales	**$ 546.0**	$ 554.7
Costs and Expenses		
Cost of products sold	**239.2**	232.8
Selling, administrative and general	**230.6**	227.5
Research and development	**43.5**	39.2
	513.3	499.5
Operating Income	**32.7**	55.2
Other (Income) Expense		
Interest and investment income	**(8.7)**	(3.9)
Interest expense	**16.2**	11.3
Foreign currency, net	**0.8**	-
	8.3	7.4
Income before Income Taxes and Minority Interest	**24.4**	47.8
Provision for income taxes	**12.0**	13.3
Minority interest in subsidiaries	**0.6**	1.2
Net Income	**$ 11.8**	$ 33.3
Basic Earnings Per Share	**$ 0.22**	$ 0.63
Average Shares Outstanding - Basic (000s)	**53,654**	52,726
Diluted Earnings Per Share	**$ 0.21**	$ 0.60
Average Shares Outstanding - Diluted (000s)	**56,052**	55,220

See Notes to Financial Statements

Bausch & Lomb Incorporated and Consolidated Subsidiaries
Balance Sheets

Dollar Amounts in Millions - Except Per Share Data	**(Unaudited) April 1, 2006**	December 31, 2005
Assets		
Cash and cash equivalents	**$ 637.5**	$ 720.6
Trade receivables, less allowances of $16.6 and $16.2, respectively	**454.7**	491.7
Inventories, net	**240.6**	219.8
Other current assets	**152.6**	124.6
Deferred income taxes	**69.4**	71.2
Total Current Assets	**1,554.8**	1,627.9
Property, Plant and Equipment, net	**612.3**	604.4
Goodwill	**802.6**	799.0
Other Intangibles, net	**276.2**	273.8
Other Long-Term Assets	**99.0**	100.3
Deferred Income Taxes	**11.0**	11.0
Total Assets	**$ 3,355.9**	$ 3,416.4
Liabilities and Shareholders' Equity		
Notes payable	**$ 5.2**	$ 0.2
Current portion of long-term debt	**134.4**	161.2
Accounts payable	**84.8**	88.1
Accrued compensation	**114.1**	126.0
Accrued liabilities	**472.9**	495.5
Federal, state and foreign income taxes payable	**117.4**	137.7
Deferred income taxes	**2.2**	1.5
Total Current Liabilities	**931.0**	1,010.2
Long-Term Debt, less current portion	**830.2**	831.2
Pension and Other Benefit Liabilities	**137.0**	137.9
Other Long-Term Liabilities	**10.1**	8.0
Deferred Income Taxes	**121.0**	120.7
Total Liabilities	**2,029.3**	2,108.0
Minority Interest	**25.2**	24.5
Commitments and Contingencies (Note 10)		
Common Stock, par value $0.40 per share, 200 million shares authorized, 60,439,172 shares issued (60,427,172 shares in 2005)	**24.1**	24.1
Class B Stock, par value $0.08 per share, 15 million shares authorized, 253,255 shares issued (253,699 shares in 2005)	**-**	-
Capital in Excess of Par Value	**98.4**	102.4
Common and Class B Stock in Treasury, at cost, 6,732,293 shares (6,741,731 shares in 2005)	**(356.0)**	(356.3)

Retained Earnings		**1,476.4**		1,471.6
Accumulated Other Comprehensive Income		**58.5**		50.9
Other Shareholders' Equity		**-**		(8.8)
Total Shareholders' Equity		**1,301.4**		1,283.9
Total Liabilities and Shareholders' Equity	**$**	**3,355.9**	$	3,416.4

See Notes to Financial Statements

Bausch & Lomb Incorporated and Consolidated Subsidiaries
Statements of Cash Flows

Dollar Amounts in Millions	(Unaudited) First Quarter Ended **April 1, 2006**	(Unaudited) First Quarter Ended (Restated) March 26, 2005
Cash Flows from Operating Activities		
Net Income	**$ 11.8**	$ 33.3
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	**25.0**	25.4
Amortization	**7.6**	6.6
Deferred income taxes	**2.5**	(6.3)
Stock-based compensation expense	**3.0**	4.4
Tax benefits associated with exercise of stock options	**-**	4.8
Loss on retirement of fixed assets	**0.3**	0.3
Changes in Assets and Liabilities		
Trade receivables	**39.3**	10.2
Inventories	**(20.1)**	(13.8)
Other current assets	**(27.8)**	(14.9)
Other long-term assets, including equipment on operating lease	**0.2**	0.6
Accounts payable and accrued liabilities	**(6.7)**	(43.7)
Income taxes payable	**(20.4)**	5.4
Other long-term liabilities	**1.3**	0.8
Net Cash Provided by Operating Activities	**16.0**	13.1
Cash Flows from Investing Activities		
Capital expenditures	**(30.1)**	(14.9)
Net cash paid for acquisition of businesses and other intangibles	**(34.3)**	(12.6)
Other	**(0.5)**	-
Net Cash Used in Investing Activities	**(64.9)**	(27.5)
Cash Flows from Financing Activities		
Repurchase of Common and Class B shares	**(1.2)**	(23.3)
Exercise of stock options	**-**	24.4
Net repayments of notes payables	**0.1**	0.1
Repayment of long-term debt	**(27.0)**	(0.2)
Payment of dividends	**(7.2)**	(6.9)
Net Cash Used in Financing Activities	**(35.3)**	(5.9)
Effect of exchange rate changes on cash and cash equivalents	**1.1**	1.5
Net Change in Cash and Cash Equivalents	**(83.2)**	(18.8)
Cash and Cash Equivalents - Beginning of Period	**720.6**	501.8

Cash and Cash Equivalents - End of Period	**$**	**637.5**	$	483.0
Supplemental Cash Flow Disclosures				
Cash paid for interest (net of portion capitalized)	**$**	**11.8**	$	13.1
Net cash payments for income taxes	**$**	**35.8**	$	13.2
Supplemental Schedule of Non-Cash Financing Activities				
Dividends declared but not paid	**$**	**7.1**	$	7.0

See Notes to Financial Statements

Bausch & Lomb Incorporated and Consolidated Subsidiaries
Notes to Financial Statements
Dollar Amounts in Millions - Except Per Share Data

1. Restatement

As more fully described in *Item 8. Financial Statements and Supplementary Data* under *Note 2 — Restatement* of the Company's 2005 Form 10-K, Bausch & Lomb restated its consolidated financial statements as of December 25, 2004 and for the fiscal years 2003 and 2004. In addition, the Company restated selected financial data as of 2003, 2002 and 2001 and for fiscal years 2002 and 2001. See *Item 8. Financial Statements and Supplementary Data* under *Note 22 — Quarterly Results, Stock Prices and Selected Financial Data (Unaudited)* of the Company's 2005 Form 10-K and beginning shareholders' equity for the impact of the restatement for periods prior to 2001, the impact of the restated financial results for the first and second quarterly periods of 2005 as well as for the quarterly periods of 2004.
The restatement corrected for errors made in the application of generally accepted accounting principles (GAAP), including revenue recognition, accounting for reserves, accounting for foreign currency adjustments, accounting for income taxes including income taxes payable, tax reserves, deferred income tax assets and liabilities, related valuation allowances and income tax expense, and the accounting for the Company's Long-Term Deferred Compensation Plan.
For a discussion of the significant restatement adjustments and the background leading to these adjustments, see *Item 8. Financial Statements and Supplementary Data* under *Note 2 — Restatement* and *Note 22 — Quarterly Results, Stock Prices and Selected Financial Data (Unaudited)* of the Company's 2005 Form 10-K.
The following table presents unaudited quarterly financial information for the first quarter of 2005, reflecting the impact of restatement.

	First Quarter Ended March 26, 2005						
	As Previously Reported	Brazil Matters	Asia and Other Revenue Recognition Matters	Tax Matters	Deferred Compensation Plan	Other Items	Restated
Net Sales	$ 554.3	$ -	$ (0.4)	$ -	$ -	$ 0.8	$ 554.7
Costs and Expenses							
Cost of products sold	232.0	-	0.6	-	-	0.2	232.8
Selling, administrative and general	222.6	0.7	0.1	-	2.9	1.2	227.5
Research and development	39.2	-	-	-	-	-	39.2
	493.8	0.7	0.7	-	2.9	1.4	499.5
Operating Income	60.5	(0.7)	(1.1)	-	(2.9)	(0.6)	55.2
Other (Income) Expense							
Interest and investment income	(3.9)	-	-	-	-	-	(3.9)
Interest expense	10.9	0.3	-	-	-	0.1	11.3
Foreign currency, net	-	-	-	-	-	-	-
	7.0	0.3	-	-	-	0.1	7.4
Income before Income Taxes and Minority Interest	53.5	(1.0)	(1.1)	-	(2.9)	(0.7)	47.8
Provision for income taxes	17.7	(0.3)	(0.4)	(2.6)	(0.9)	(0.2)	13.3
Minority interest in subsidiaries	1.3	-	(0.1)	-	-	-	1.2
Net Income	$ 34.5	$ (0.7)	$ (0.6)	$ 2.6	$ (2.0)	$ (0.5)	$ 33.3
Basic Earnings Per Share	$ 0.65	$ (0.01)	$ (0.01)	$ 0.05	$ (0.04)	$ (0.01)	$ 0.63

Diluted Earnings Per Share	$	0.63	$	(0.01)	$	(0.01)	$	0.05	$	(0.04)	$	(0.01)	$	0.60

The following table presents the major subtotals for the Company's *Statements of Cash Flows* and the related impact of the restatement adjustments discussed above for the first quarter ended March 26, 2005.

	First Quarter Ended March 26, 2005	
	As Previously Reported	Restated
Net Cash Provided by (Used In):		
Operating activities	$ 13.2	$ 13.1
Investing activities	(27.5)	(27.5)
Financing activities	(6.0)	(5.9)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1.5	1.5
Net Change in Cash and Cash Equivalents	(18.8)	(18.8)
Cash and Cash Equivalents, Beginning of Year	501.8	501.8
Cash and Cash Equivalents, End of Year	$ 483.0	$ 483.0

2. Comprehensive Income

Comprehensive income, net of tax, consists of the following:

	First Quarter Ended	
	April 1, 2006	(Restated) March 26, 2005
Foreign currency translation adjustments	**$ 6.0**	$ 9.1
Realized (gains) losses from hedging activity	**(0.5)**	0.5
Market value adjustments for available-for-sale securities	**2.1**	-
Other comprehensive income	**7.6**	9.6
Net income	**11.8**	33.3
Total comprehensive income	**$ 19.4**	$ 42.9

3. Earnings Per Share

Basic earnings per share is computed based on the weighted average number of Common and Class B shares outstanding during a period. Diluted earnings per share reflect the assumed conversion of dilutive stock. In computing the per share effect of assumed conversion, funds which would have been received from the exercise of options were considered to have been used to repurchase Common shares at average market prices for the period, and the resulting net additional Common shares are included in the calculation of average Common shares outstanding.

In a given period there may be outstanding stock options considered anti-dilutive as the options' exercise price was greater than the average market price of Common shares during that period and, therefore, excluded from the calculation of diluted earnings per share. At April 1, 2006, anti-dilutive stock options to purchase 1.3 million shares of Common stock with exercise prices ranging from $69.13 to $83.55 were outstanding. Anti-dilutive stock options to purchase approximately 1.0 million shares of Common stock with exercise prices ranging from $71.18 to $74.34 were outstanding at March 26, 2005.

In December 2004, the Company completed its offer to exchange up to $160.0 variable-rate Convertible Senior Notes (Old Notes) due in 2023 for an equal amount of its 2004 Senior Convertible Securities due 2023 (New Securities). The terms of the New Securities are consistent with those of the Old Notes except that settlement upon conversion of the New Securities will be paid in cash up to the principal amount of the converted New Securities with any excess of the conversion value settled in shares of the Company's stock. An amount equal to $155.9 of the Old Notes, or 97.4 percent of the outstanding issue, was tendered in exchange for an equal amount of the New Securities. The conversion right was triggered on June 17, 2005, and the Old Notes and New Securities were convertible at the option of the holder beginning July 1, 2005. See the 2006 Form 10-K for further discussion.

The impact to net income from the Old Notes on the diluted EPS calculation was an adjustment of less than $0.1 for the first quarters of 2006 and 2005, representing the interest and amortization expense attributed to the remaining Old Notes. The effects of the Old Notes and the New Securities on dilutive shares for the first quarters of 2006 and 2005 are reflected in the table below.
The following table summarizes the amounts used to calculate basic and diluted EPS:

	First Quarter Ended			
(Dollar Amounts in Millions, Share Data in Thousands)		**April 1, 2006**		(Restated) March 26, 2005
Net Income	**$**	**11.8**	$	33.3
Weighted Average Basic Shares Outstanding		**53,654**		52,726
Effect of Dilutive Shares		**2,062**		2,112
Effect of Convertible Senior Notes Shares		**67**		67
Effect of 2004 Senior Convertible Securities Shares		**269**		315
Weighted Average Diluted Shares Outstanding		**56,052**		55,220
Basic Earnings Per Share	**$**	**0.22**	$	0.63
Diluted Earnings Per Share	**$**	**0.21**	$	0.60

4. Employee Stock Plans

In December 2004, the Financial Accounting Standards Board (FASB) issued its standard on accounting for share-based payments, SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)). Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), which establishes the accounting for stock-based awards exchanged for employee services. SFAS No. 123(R) requires that the cost resulting from all share-based payment transactions be recognized in the financial statements based on fair value of the award. Accordingly, stock-based compensation cost is based on the fair value of the award measured on the grant date, and is recognized as expense over the employee requisite service period. The Company previously applied the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and related Interpretations as allowed under SFAS No. 123. Under the intrinsic value method, no share-based compensation cost related to stock options had been recognized in the Company's *Statements of Income*, as the exercise price was equal to the market value of the Company's Common stock on the grant date. As a result, the recognition of share-based compensation cost was generally limited to the expense attributed to restricted stock awards, performance awards and stock option modifications. SFAS No. 123(R) is a revision of SFAS No. 123 and supersedes APB No. 25.
As permitted by SFAS No. 123(R), the Company elected to apply the modified prospective transition method upon adoption in which compensation cost is recognized beginning on January 1, 2006, for all share-based payments granted after January 1, 2006 and for all awards previously granted that remained unvested on that date. Compensation cost related to the unvested portion of previously granted awards is based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123. Compensation cost for awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The Company estimates the grant-date fair value using the Black-Scholes option pricing model. Prior to January 1, 2006, the Black-Scholes option pricing model was also used in estimating the grant-date fair values in developing the

Company's pro forma disclosure information required under SFAS No. 123. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based payment awards that will ultimately vest. The Company's estimates are based on historical forfeiture data. The estimated forfeiture rate will be adjusted if actual forfeitures differ from its original estimates. The effect of any change in estimated forfeitures would be recognized as an adjustment to compensation cost recognized in the period of the change in estimate. In accordance with the modified prospective transition method, the Company's *Statements of Income* for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R). Staff Accounting Bulletin No. 107, *Share-Based Payment*, was taken into consideration with the implementation of SFAS No. 123(R).

On December 22, 2005, the Company announced that certain prior-period financial statements of the Company were required to be restated and could not be relied upon. As a result, the Company determined that certain registration statements relating to the Company's long-term incentive plans, or prospectuses related to such plans, are no longer current and will not be considered current until the Company is current with its SEC periodic filings. Accordingly, as permitted by the plans, the Company imposed certain restrictions on issuing share-based compensation awards and the exercise of previously issued stock awards, except for transactions which could be exempted under Federal Securities law, until such registration statements are current. During the first quarter of 2006, the Company granted a total of 7,000 stock options to new hires.

Share-based compensation cost recognized under SFAS No. 123(R) for the first quarter ended April 1, 2006 was $3.0 and included $3.5 of expense associated with stock options and $0.7 of expense related to time-based restricted stock awards offset by $1.2 of mark-to-market adjustments associated with the Company's Restricted Stock Deferred Compensation Plan. In May 2006, the Company amended this Plan requiring all future distributions of participant deferrals of stock awards be settled only in shares of Company stock, eliminating the sole option of the Company to settle in cash, and thereby eliminating the requirement under GAAP to recognize subsequent changes in the fair value of Company stock. Of the $3.5 of stock option expense, $2.7, $0.6 and $0.2 was recorded in selling, administrative and general expenses, research and development and cost of products sold, respectively. Expense associated with time-based restricted stock and the mark-to-market adjustments was recorded in selling, administrative and general expenses. There was no compensation cost capitalized to assets during the first quarter of 2006. Compensation cost was included in operating activities on the *Statement of Cash Flows* for the first quarter ended April 1, 2006.

The compensation cost associated with stock options for the first quarter of 2006 was mainly comprised of compensation cost related to the unvested portion of previously granted awards as of January 1, 2006 since the Company delayed its annual grant due to the aforementioned restrictions imposed on share-based compensation awards. Previously, as permitted under SFAS No. 123, the Company calculated compensation cost for the purpose of pro forma disclosure using a graded-vesting attribution method. Under that method, compensation cost is recognized over the requisite service period for each separately vesting tranche of the award. The Company continues to apply the graded-vesting method in recognizing compensation cost associated with outstanding unvested awards as of January 1, 2006. As permitted by SFAS No. 123(R), the Company has elected to recognize compensation cost evenly over the vesting period using the straight-line attribution method for awards granted subsequent to January 1, 2006.

In November 2005, the FASB issued FASB Staff Position (FSP) No. SFAS 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. This FSP provides an elective alternative transition method related to accounting for the tax effects of share-based payments to employees which is different from the transition method prescribed by SFAS No. 123(R). The alternative method includes simplified methods to establish the beginning balance of additional paid-in capital related to the tax effects of employee share-based compensation (the APIC pool), and to determine the subsequent impact on the APIC pool and the Company's *Statements of Cash Flows* of the tax effects of employee share-based compensation awards that were outstanding upon adoption of SFAS No. 123(R). The Company has elected to adopt the alternative transition method provided in this FSP for calculating the tax effects of share-based compensation pursuant to SFAS No. 123(R).

The Company applies a tax law ordering approach in determining its intraperiod allocation of tax expense or benefit attributable to share-based compensation deductions. The Company incurred a U.S. net operating loss for 2006, and therefore, no U.S. tax expense or benefit related to U.S. share-based compensation deductions was allocated to additional paid-in capital for the first quarter of 2006. The share-based compensation deductions related to foreign affiliates for this period, and the related allocation of tax benefits to additional paid-in capital, were immaterial.

Share-based compensation expense reduced the Company's results of operations for the first quarter of 2006 as follows:

Amounts in millions, except per share data	**For the First Quarter**

		Ended April 1, 2006
Operating income	**$**	**3.0**
Net income		**3.0**
Earnings per share: Basic		**0.06**
Earnings per share: Diluted	**$**	**0.05**

The effect on net income and earnings per share for the first quarter of 2005 as if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* was as follows:

Amounts in millions, except per share data		For the First Quarter Ended March 26, 2005
Net income, as reported	$	33.3
Add: Share-based compensation expense included in reported net income, net of tax [1,2]		2.7
Deduct: Total share-based compensation expense determined under the fair value based method for all awards, net of tax [1, 2]		(6.1)
Pro forma net income	$	29.9
Earnings per share - Basic:		
As reported	$	0.63
Pro forma	$	0.57
Earnings per share - Diluted:		
As reported	$	0.60
Pro forma	$	0.54

[1] Amounts reflect mark-to-market adjustments associated with the Company's Restricted Stock Deferred Compensation Plan.

[2] Net of tax amounts were calculated using the combined U.S. Federal and State statutory rate of 38.3 percent.

2003 Long-Term Incentive Plan

The 2003 Long-Term Incentive Plan (the 2003 Plan) was approved by the shareholders of the Company on April 29, 2003 and will terminate on April 29, 2013. Under this plan, a total of 6,000,000 shares were authorized for issuance, of which no more than 1,800,000 shares may be issued pursuant to awards other than options and stock appreciation rights. Any employee or non-employee director is eligible to participate under the plan. Any shares issued may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise. The Company typically utilizes proceeds from stock option exercises to repurchase shares (pursuant to its authorized purchase programs) to partially offset the dilutive impact of stock option exercise activity. Stock options, stock appreciation rights, restricted stock, performance awards and other stock unit awards may be granted under such plan. As of April 1, 2006, the Company had issued stock options, restricted stock, restricted stock units and performance-based stock units under the plan.

Prior to the 2003 Long-Term Incentive Plan, the Company provided shares available for grant in each calendar year, equal to three percent of the total number of outstanding shares of Common stock as of the first day of each such year, under its Stock Incentive Plan, which had an evergreen provision. In October 2002, the Company's Board of Directors amended the plan to eliminate the evergreen feature and provide a pool of shares of 1,600,000 to be available for future grants. As of the adoption of the 2003 Long-Term Incentive Plan on April 29, 2003, no additional shares will be issued under this plan.

The Company had also adopted a stock incentive plan for non-officers effective January 22, 2001. The number of shares available for grant each year was no greater than two percent of the total number of outstanding shares of Common stock as of the first day of each such year. Options and awards under this plan were granted only to employees of the Company or any subsidiary corporation of the Company who were neither officers nor directors of

the Company. Effective January 1, 2003, no additional shares will be issued under this plan.

Stock Options The Company has granted non-qualified and incentive stock options under the plans discussed above. These options typically vest ratably over three years for employee options and 100 percent after one year for non-employee director options, and expire ten years from the date of grant. Vesting is contingent upon a continued employment relationship with the Company. There are no accelerated terms for retirement-eligible employees upon retirement. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the table below. The Company uses historical data to estimate the expected life. Expected volatility is based on historical volatility of the Company’s Common stock (weighted 80 percent) and implied volatilities from traded options on the Company’s Common stock (weighted 20 percent). The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero coupon issues with a remaining term equal to the expected life. Expected dividend yield is based on the Company's annual dividend divided by the exercise price.

The following table summarizes information concerning stock options outstanding including related activity under the Company's plans for the first quarter ended April 1, 2006:

	Number of Options (000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value [1] ($000s)
Outstanding as of December 31, 2005	**5,824**	**$ 49.96**		
Granted	**7**	**70.03**		
Exercised	**-**	**-**		
Forfeited and canceled	**(36)**	**66.06**		
Outstanding at April 1, 2006	**5,795**	**49.89**	**6.0**	**$ 114.4**
Options exercisable at April 1, 2006	**4,783**	**$ 46.56**	**5.7**	**$ 108.7**

[1] Calculated using in-the-money stock options multiplied by the difference between the Company's average of the high and low stock price on March 31, 2006 and the option exercise price. The total number of in-the-money options exercisable on April 1, 2006 was approximately 4.1 million.

Other information pertaining to stock options for the first quarters of 2006 and 2005 is as follows:

	For the First Quarter Ended April 1, 2006	For the First Quarter Ended March 26, 2005
Weighted average grant-date fair value of stock options granted	**$ 22.22**	$ 24.57
Total fair value of options vested ($000s)	**$ 17.5**	$ 17.4
Total intrinsic value of options exercised ($000s)	**NM**	$ 15.7

Proceeds received from the exercise of 450 stock options were less than $0.1 for the first quarter ended April 1, 2006 and immaterial to the S*tatement of Cash Flows*.

The following weighted average assumptions were used for the first quarters of 2006 and 2005:

	For the First Quarter Ended April 1, 2006	For the First Quarter Ended March 26, 2005
Expected life	**5**	5
Expected volatility	**28.85%**	35.15%
Risk-free interest rate	**4.70%**	4.34%
Expected dividend yield	**0.74%**	1.14%

A summary of the status of the Company's nonvested stock options as of April 1, 2006 and changes during the first quarter ended April 1, 2006, is presented below:

Nonvested Options	Number of Options (000s)		Weighted Average Grant-Date Fair Value
Nonvested options at December 31, 2005	**2,024**	**$**	**19.84**
Granted	**7**		**22.22**
Vested	**(1,007)**		**17.38**
Forfeited and canceled	**(28)**		**21.72**
Nonvested options at April 1, 2006	**996**	**$**	**22.30**

Total unrecognized compensation cost related to unvested stock options granted under the Company's plans as of April 1, 2006 was $8.5 and is expected to be recognized over a weighted-average period of 1.1 years.

Restricted Stock The Company issues restricted stock awards to officers and other key personnel. These awards have vesting periods up to seven years with vesting criteria based on continued employment until applicable vesting dates and, prior to 2005, on the attainment of specific performance goals such as average sales and cumulative earnings per share targets. Compensation expense is recorded based on applicable vesting criteria and, for awards prior to 2005 with performance goals, as such goals are met. The following tables summarize activity related to restricted stock:

Nonvested Restricted Shares	Numbers of Shares (000s)		Weighted Average Grant-Date Fair Value
Nonvested restricted shares at December 31, 2005	**288**	**$**	**52.37**
Granted	**12**		**67.87**
Vested	**(1)**		**33.59**
Forfeited and canceled	**(1)**		**83.55**
Nonvested restricted shares at April 1, 2006	**298**	**$**	**52.94**

		April 1, 2006		March 26, 2005
Weighted average grant-date fair value of restricted stock awards granted	**$**	**67.87**	$	71.67
Total fair value of restricted stock awards vested ($000s)	**$**	**0.1**	$	3.8

As a result of the previously discussed restrictions on the Company's ability to issue share-based compensation awards, restricted stock awards were granted only to new hires and a limited number of key employees which were exempt under Federal Securities law. Compensation cost related to restricted stock awards in the first quarter of 2006 was $0.7 offset by $1.2 of mark-to-market adjustments associated with the Company's Long-Term Deferred Compensation Plan. Compensation cost related to restricted stock awards in the first quarter of 2005 was $4.4. Unrecognized compensation cost at April 1, 2006 was $8.8 and is expected to be recognized over a weighted-average period of 2.3 years.

Performance Awards The Company issues performance-unit or performance-share awards to its corporate officers and other key executives selected by the Company’s CEO. Performance awards vest 50 percent upon completion of a performance cycle and 50 percent on the first anniversary of completion of a performance cycle. Performance cycles are typically two years, with a new cycle beginning upon completion of the prior cycle. Performance awards are paid in cash or shares on the attainment of vesting criteria and specific performance measures such as average sales growth and return on invested capital. For the 2004-2005-performance period, cash-denominated awards were granted in 2004 with a total value for the two-year cycle of $9.5. In 2005, additional awards were granted to newly hired officers for a one-year cycle valued at approximately $0.3. During 2004, performance-share awards of 1,800 were granted to newly hired employees with average market values of $52.79. No performance awards were granted during 2006 in accordance with the previously discussed restrictions. Additional disclosures have not been provided due to the immaterial amount of activity associated with performance awards during fiscal years 2005 and 2006.

Employee Stock Purchase Plan The Company has a stock purchase plan for all eligible employees. In accordance with SFAS No. 123(R), the terms of the Plan do not give rise to recognizable compensation cost, that is, the Plan is noncompensatory as the terms of the Plan are no more favorable than those available to all holders of the same class of shares. Shares of the Company’s Common stock may be purchased by employees at the market price on the first business day of the month.

5. Provision for Income Taxes

	April 1, 2006	(Restated) March 26, 2005
Income before taxes and minority interest	**$ 24.4**	$ 47.8
Provision for income taxes	**$ 12.0**	$ 13.3
Effective tax rate	**49.2%**	27.8%

For the first quarter of 2006, the Company recorded a provision of $12.0 on pre-tax income of $24.4, representing an effective rate of 49.2 percent. The difference between the effective tax rate and the U.S. Federal statutory rate of 35.0 percent is primarily attributable to losses generated within the United States for which the Company did not record a corresponding tax benefit, and the geographic mix of income before taxes from operations outside the United States and the related tax rates in those jurisdictions.
For the first quarter of 2005, the Company recorded a provision of $13.3 on pre-tax income of $47.8, representing an effective rate of 27.8 percent. The difference between the effective tax rate and the U.S. Federal statutory rate of 35.0 percent is primarily attributable to the geographic mix of income before taxes from operations outside the United States and the related tax rates in those jurisdictions.

6. Business Segment Information

The Company is organized on a regionally based management structure for commercial operations. The research and development and product supply functions of the Company are managed on a global basis. The Company's engineering function is part of the product supply function. The Company's segments are the Americas region; the Europe, Middle East and Africa region (Europe); the Asia region; the Research & Development organization and the Global Operations & Engineering organization.
Operating income is the primary measure of segment income. No items below operating income are allocated to segments. Charges related to certain significant events, although related to specific segments, are also excluded from management basis results. There were no such charges during the quarters ended April 1, 2006 or March 26, 2005. The accounting policies used to generate segment results are the same as the Company's overall accounting policies. Inter-segment sales were $160.8 and $164.3 for the quarters ended April 1, 2006 and March 26, 2005, respectively. All inter-segment sales have been eliminated upon consolidation and have been excluded from the amounts in the tables below.
The following tables present net sales and operating income by business segment and present total company operating income for the quarters ended April 1, 2006 and March 26, 2005:

	First Quarter Ended			
	April 1, 2006		(Restated) March 26, 2005	
	Net Sales	**Operating Income**	Net Sales	Operating Income
Americas	**$ 247.5**	**$ 80.9**	$ 236.2	$ 79.1
Europe	**186.3**	**33.4**	216.5	65.1
Asia	**112.2**	**20.1**	102.0	21.7
Research & Development	**-**	**(48.4)**	-	(45.6)
Global Operations & Engineering	**-**	**(34.0)**	-	(38.2)
	546.0	**52.0**	554.7	82.1
Corporate administration	**-**	**(19.3)**	-	(26.9)

$	**546.0**	$	**32.7**	$	554.7	$	55.2

Net sales in markets outside the U.S. totaled $324.8 in the first quarter ended April 1, 2006 and $341.6 in the same 2005 period. Net U.S. sales totaled $221.2 in the first quarter ended April 1, 2006, compared with $213.1 for the same prior-year period. The Company's operations in France and Germany each generated more than 10 percent of product net sales in the first quarter of 2005 totaling $59.3 and $57.6, respectively. No other non-U.S. country, or single customer, generated more than 10 percent of total product net sales during the first quarter of 2006 or 2005.

7. Acquired Intangible Assets

In January 2006, the Company entered into an agreement to acquire certain assets of a privately-held company that manufactures a line of accessories that are compatible with the Company's phacoemulsification and microkeratome equipment. As part of this transaction, the Company assumed an exclusive royalty bearing license agreement to aspiration tubing technology, and acquired certain patents and other intangible assets. Total consideration paid per the agreement was $8.0. As of January 2006, the Company made a $3.0 cash payment and executed an interest bearing promissory note for the remaining $5.0, due in two equal installments of $2.5, six months and one year from the date of the agreement. As of December 30, 2006, cash payments totaled $5.5 with $2.7 due and subsequently paid in January 2007 which included $0.2 of interest. The acquired intangible assets are reflected in technology and patents ($4.7) and license agreements ($3.3) in the table below and have been assigned 11 and 20 year lives, respectively.

The components of intangible assets as of April 1, 2006 and December 31, 2005 are as follows:

	April 1, 2006		December 31, 2005	
	Gross Carrying Amount	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Tradenames	**$ 118.0**	**$ 46.7**	$ 117.7	$ 44.3
Technology and patents	**96.1**	**75.7**	96.1	74.5
Developed technology	**78.0**	**21.7**	77.6	20.7
Distributor relationships	**58.3**	**1.8**	57.9	0.9
Intellectual property	**39.1**	**11.5**	38.2	10.6
License agreements	**44.2**	**19.1**	36.2	18.4
Physician information & customer database	**21.9**	**4.2**	21.8	3.9
Non-compete agreements	**1.8**	**0.5**	1.8	0.2
	$ 457.4	**$ 181.2**	$ 447.3	$ 173.5

8. Other Short- and Long-Term Investments

An investment in the common stock of pSivida Limited was classified as available-for-sale under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. As of April 1, 2006, the investment was valued at $3.5 and a resulting unrealized holding gain of $3.5 was recorded. The investment is included in other current assets on the *Balance Sheets.* The unrealized holding gain, net of $1.4 of tax effects, was reported in accumulated other comprehensive income on the *Balance Sheets*. See *Note 2 — Comprehensive Income* for adjustments to the market value of the investment during the quarter ended April 1, 2006.

9. Employee Benefits

The Company's benefit plans, which in the aggregate cover substantially all U.S. employees and employees in certain other countries, consist of defined benefit pension plans, a participatory defined benefit postretirement plan and defined contribution plans. The following table provides the components of net periodic benefit cost for the Company's defined benefit pension plans and postretirement benefit plan for the quarters ended April 1, 2006 and March 26, 2005:

	Pension Benefit Plans		Postretirement Benefit Plans	
	April 1, 2006	(Restated) March 26, 2005	**April 1, 2006**	(Restated) March 26, 2005
Service cost	**$ 2.2**	$ 2.1	**$ 0.3**	$ 0.4
Interest cost	**5.0**	5.1	**1.4**	1.3
Expected return on plan assets	**(5.6)**	(5.6)	**(0.8)**	(0.8)
Amortization of prior-service cost	**-**	-	**-**	(0.1)
Amortization of net loss	**2.0**	2.2	**0.5**	0.2
Special termination benefits	**0.2**	0.1	**-**	-
Net periodic benefit cost	**$ 3.8**	$ 3.9	**$ 1.4**	$ 1.0

Defined Contribution Plans The costs associated with the Company's defined contribution plans totaled $9.7 and $10.1 for the quarters ended April 1, 2006 and March 26, 2005, respectively.

10. Commitments and Contingencies

Subsidiary Debt Guarantees The Company guarantees in writing for its subsidiaries certain indebtedness used for working capital and other obligations. Those written guarantees totaled approximately $453.3 and $482.2 at April 1, 2006 and December 31, 2005, respectively. The 2006 and 2005 written guarantees are principally attributed to the Company's agreement to guarantee a July 2005 bank term loan facility on behalf of its Japanese subsidiary and a December 2005 bank term loan facility on behalf of its Dutch subsidiary. Also, during December 2005, the Company agreed to guarantee a $26.8 bank line of credit on behalf of its Hong Kong subsidiary to partially fund the acquisition of an additional 15 percent interest in Freda, which was repaid by the Hong Kong subsidiary in January 2006. Outstanding balances under the guaranteed debt facilities were $424.4 and $449.9 at April 1, 2006 and December 31, 2005, respectively. From time to time, the Company may also make verbal assurances with respect to indebtedness of its subsidiaries under certain lines of credit or other credit facilities, also used for working capital.

Letters of Credit The Company had outstanding standby letters of credit totaling approximately $22.2 at April 1, 2006 and December 31, 2005, respectively, to ensure payment of possible workers' compensation, product liability and other insurance claims. At April 1, 2006 and December 31, 2005, the Company had recorded liabilities of approximately $11.4 and $9.9, respectively, related to workers' compensation, product liability and other insurance claims.

Guarantees The Company guarantees a lease obligation of a customer in connection with a joint marketing alliance. The lease obligation has a term of ten years expiring November 2011. The amounts guaranteed at April 1, 2006 and December 31, 2005 were approximately $7.8 and $8.2, respectively. In the event of default, the guarantee would require payment from the Company. Sublease rights as specified under the agreement would reduce the Company's

exposure. The Company believes the likelihood is remote that material payments will be required in connection with this guarantee and, therefore, has not recorded any liabilities under this guarantee.

Tax Indemnifications In connection with divestitures, the Company has agreed to indemnify certain tax obligations arising out of tax audits or administrative or court proceedings relating to tax returns for any periods ending on or prior to the closing date of the respective divestiture. The Company believes that any claim would not have a material impact on the Company's financial position. The Company has not recorded any liabilities associated with these obligations.

Environmental Indemnifications The Company has certain obligations for environmental remediation and Superfund matters related to current and former Company sites. There have been no material changes to estimated future remediation costs as reflected in the 2006 Form 10-K and the 2005 Form 10-K. The Company does not believe that its financial position, results of operations, or cash flows are likely to be materially affected by environmental liabilities.

Other Commitments and Contingencies The Company is involved in lawsuits, claims, investigations and proceedings, including patent, trademark, commercial and environmental matters, which are being handled and defended in the ordinary course of business. Pending material litigation matters are discussed further in *Note 14 — Other Matters*. In addition to pending litigation matters, the Company may from time to time learn of alleged non-compliance with laws or regulations or other improprieties through compliance hotlines, communications by employees, former employees or other third parties, as a result of its internal audit procedures, or otherwise.
As previously reported, the Audit Committee of the Board of Directors had commenced an investigation of the potential Foreign Corrupt Practices Act implications of the Company's Spanish subsidiary's providing free product, principally intraocular lenses used in cataract surgery, and other things of value to doctors performing surgical procedures in public facilities in Spain. This investigation was initiated following reports of potentially improper sales practices by a former employee and was voluntarily reported to the Northeast Regional Office of the SEC. The Audit Committee's investigation is now complete and found no evidence that the Company's senior management in Rochester or regional management in London authorized, directed, controlled or knowingly acquiesced in the subject sales practices engaged in by the Company's Spanish subsidiary. It also appears that, in certain instances, the Spanish subsidiary's provision of free product and other things of value to doctors and hospitals in Spain were not appropriately documented or accurately recorded in the subsidiary's books and records. We cannot predict the outcome or potential liability of the Company or its Spanish subsidiary in connection with these matters, which may also raise issues under local laws.
During March 2007, the Company received formal notification of amnesty by the state Government of Sao Paolo as it relates to a Brazilian tax assessment recorded in periods prior to 2006. The reversal of penalties and interest of $19.3 and $2.5, respectively, has been reflected in the Company's first quarter 2007 results.
The Company’s policy is to comply with applicable laws and regulations in each jurisdiction in which it operates and, if the Company becomes aware of a potential or alleged violation, to conduct an appropriate investigation, to take appropriate remedial action and to cooperate fully with any related governmental inquiry. There can be no assurance that any pending or future investigation or resulting remedial action will not have a material adverse financial, operational or other effect on the Company. The Company cannot at this time estimate with any certainty the impact of any pending litigation matters, allegations of non-compliance with laws or regulations or allegations of other improprieties on its financial position (see *Note 14 — Other Matters* for further discussion).

Product Warranties The Company estimates future costs associated with expected product failure rates, material usage and service costs in the development of its warranty obligations. Warranty reserves are established based on historical experience of warranty claims and generally will be estimated as a percentage of sales over the warranty period or as a fixed dollar amount per unit sold. In the event that the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded. Changes in the Company's product warranty liability for the year ended December 31, 2005 and for the first quarter ended April 1, 2006 were as follows:

Balance at December 25, 2004	$	7.8
Accruals for warranties issued		6.9
Changes in accruals related to pre-existing warranties		(2.1)
Settlements made		(6.7)
Balance at December 31, 2005 [1]	$	5.9
Accruals for warranties issued		1.6

Settlements made		(1.9)
Balance at April 1, 2006 [1]	$	5.6

[1] Warranty reserve changes and balances do not include amounts in connection with the *MoistureLoc* recall.

Deferred Service Revenue Service revenues are derived from service contracts on surgical equipment sold to customers and are recognized over the term of the contracts while costs are recognized as incurred. Changes in the Company's deferred service revenue during the year ended December 31, 2005 and for the first quarter ended April 1, 2006 were as follows:

Balance at December 25, 2004	$	7.7
Accruals for service contracts		11.8
Revenue recognized		(12.6)
Balance at December 31, 2005	$	6.9
Accruals for service contracts		3.5
Changes in accruals related to pre-existing service contracts		(0.1)
Revenue recognized		(3.2)
Balance at April 1, 2006	$	7.1

11. Supplemental Balance Sheet Information

		April 1, 2006		December 31, 2005
Inventories, net				
Raw materials and supplies	**$**	**57.2**	$	51.4
Work in process		**22.9**		19.5
Finished products		**160.5**		148.9
	$	**240.6**	$	219.8

		April 1, 2006		December 31, 2005
Property, Plant and Equipment, net				
Land	**$**	**20.2**	$	20.0
Buildings		**351.9**		344.8
Machinery and equipment		**1,019.7**		998.2
Leasehold improvements		**25.8**		25.5
Equipment on operating lease		**13.9**		14.4
		1,431.5		1,402.9
Less accumulated depreciation		**(819.2)**		(798.5)
	$	**612.3**	$	604.4

12. New Accounting Guidance

In December 2004, the FASB issued SFAS No. 123R which replaced FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires companies to recognize compensation cost relating to share-based payment transactions, including grants of employee stock options, in the financial statements based on the grant date fair value. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. SFAS No. 123(R) is effective for fiscal periods beginning after June 15, 2005. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC's interpretations of SFAS No. 123(R) and the

valuation of share-based payments for public companies. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. The Company adopted the provisions of SFAS No. 123(R) on January 1, 2006 applying the modified prospective transition method upon adoption. See *Note 4 — Employee Stock Plans* for additional information.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3*. SFAS No. 154 requires retrospective application to prior period financial statements for changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. SFAS No. 154 further requires a change in depreciation, amortization or depletion method for long-lived, non-financial assets to be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS No. 154 was effective for the Company's fiscal year beginning January 1, 2006. The adoption of this statement did not have any impact on the Company's consolidated financial condition or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006. Upon adoption of FIN 48, the Company recorded $18.2 as a cumulative effect adjustment reducing shareholders' equity, largely related to state income tax matters and partially offset by federal matters considered to be effectively settled.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. Specifically, this Statement sets forth a definition of fair value, and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The provisions of SFAS No. 157 are generally required to be applied on a prospective basis, except to certain financial instruments accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, for which the provisions of SFAS No. 157 should be applied retrospectively. The Company will adopt SFAS No. 157 in the first quarter of 2008 and is still evaluating the effect, if any, on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. The Company expects to adopt SFAS No. 159 in the first quarter of 2008.

13. Acquisitions

In the 2006 Form 10-K and the 2005 Form 10-K, we disclosed the Company's acquisition of a 70-percent controlling interest in the Shandong Chia Tai Freda Pharmaceutical Group (Freda) in the fourth quarter of 2005, including the timing of payments for the acquisition. The Freda acquisition was partially financed with a $26.8 non-U.S. line of credit borrowing, which was repaid in January 2006. During the quarter ended April 1, 2006, the Company made payments of $30.4 relative to the Freda acquisition, which included an additional cash payment of $26.6 and acquisition costs of $3.8. The Company has not acquired any businesses during the first quarter of 2006.

14. Other Matters

Legal Matters The Company is involved as a party in a number of material matters in litigation, including litigation relating to the proposed merger with affiliates of Warburg Pincus LLC (Warburg Pincus), general litigation related to the February 2007 restatement of the Company's financial information and the previously announced *MoistureLoc* withdrawal, material intellectual property litigation, and material tax litigation. The Company intends to vigorously defend itself in all of these matters. At this time, the Company is unable to predict the outcome of, and cannot reasonably estimate the impact of, any pending litigation matters, matters concerning allegations of non-compliance with laws or regulations, and matters concerning other allegations of other improprieties. The Company has not made any financial provision for potential liability in connection with these matters, except as described below under *Product Liability Lawsuits*.

Shareholder Securities Class Actions There is a consolidated securities class action, entitled *In re Bausch & Lomb Incorporated Securities Litigation,* Case Nos. 06-cv-6294 (master file), 06-cv-6295, 06-cv-6296, and 06-cv-6300, pending in Federal District Court for the Western District of New York, Rochester Division, against the Company and certain present and former officers and directors. Initially, four separate shareholder actions were filed between March and May of 2006 in Federal District Court for the Southern District of New York, and these were later transferred to the Western District of New York and consolidated into the above-captioned matter. Plaintiffs in these actions purport to represent a putative class of shareholders who purchased Company stock at allegedly artificially inflated levels between January 27, 2005 and May 3, 2006. Among other things, plaintiffs allege that defendants issued materially false and misleading public statements regarding the Company's financial condition and operations by failing to disclose negative information relating to the Company's Brazilian and Korean subsidiaries, internal controls, and problems with *MoistureLoc*, thereby inflating the price of Company stock during the alleged class period. Plaintiffs seek unspecified damages. The cases are currently awaiting appointment of lead plaintiff and lead plaintiff's counsel in accordance with the Private Securities Litigation Reform Act. Pursuant to a stipulated schedule ordered by the Court, the lead plaintiff appointed by the Court must file a consolidated amended complaint by 45 days after entry of the Court's order appointing the lead plaintiff.

Litigation Related to Merger The Company and its directors have been named as defendants in three purported class actions filed since May 16, 2007 on behalf of the public shareholders of the Company challenging the proposed transaction pursuant to which affiliates of Warburg Pincus will acquire all of the outstanding shares of the Company’s common stock for $65.00 per share in cash. These actions are entitled: *First Derivative Traders LP v. Zarrella, et al.,* Case No. 07-6384 (May 21, 2007), filed in the Supreme Court of the State of New York in and for Monroe County; *Gottlieb v. Bausch & Lomb, Inc., et al.,* Case No. 07-6506 (May 22, 2007), filed in the Supreme Court of the State of New York in and for Monroe County; and *Brower v. Bausch & Lomb, Inc.,* Case No. 650151/07 (May 17, 2007), filed in the Supreme Court of the State of New York in and for New York County. The complaints in these actions contain substantially similar allegations and seek substantially similar relief. Among other things, plaintiffs allege that the director defendants have breached their fiduciary duties to the Company's shareholders in pursuing the proposed transaction, including by accepting an unfair and inadequate acquisition price and failing to take appropriate steps to maximize shareholder value in connection with the sale of the Company. The *Gottlieb* and *Brower* complaints also assert a claim against Warburg Pincus for aiding and abetting the directors' breach of fiduciary duties. Plaintiffs seek, among other things, preliminary and permanent injunctive relief against the proposed transaction and unspecified damages.

ERISA-Based Class Actions There is a consolidated ERISA class action, entitled *In re Bausch & Lomb Incorporated ERISA Litigation*, Case Nos. 06-cv-6297 (master file), 06-cv-6315, and 06-cv-6348, pending in the Federal District Court for the Western District of New York, Rochester Division, against the Company and certain present and former officers and directors. Initially, three separate actions were filed between April and May of 2006 in the Federal District Court for the Southern District of New York, and these were later transferred to the Western District of New York and consolidated into the above-captioned matter. Plaintiffs in these actions purport to represent a class of participants in the Company's defined contribution 401(k) Plan for whose individual accounts the plan held an interest in Company stock between May 25, 2000 and the present. Among other things, plaintiffs allege that the defendants breached their fiduciary duties to plan participants by allowing the plan to invest in Company Common stock despite the fact that it was allegedly artificially inflated due to the failure to disclose negative information relating to the Company's Brazilian and Korean subsidiaries, internal controls, and problems with *MoistureLoc*. Plaintiffs seek unspecified damages as well as certain declaratory and injunctive relief. On August 28, 2006, the Court entered an order appointing co-lead plaintiffs and co-lead plaintiffs' counsel. Pursuant to a stipulated schedule ordered by the Court, plaintiffs in the consolidated ERISA action will have until 10 days after a consolidated amended complaint is filed in the consolidated securities action described above, to file a consolidated amended complaint.

Shareholder Derivative Actions The shareholder derivative actions, in which a shareholder seeks to assert the rights of the Company derivatively against certain present and former officers and directors, fall into two categories: (a) those asserting allegations relating to accounting issues at the Company's Brazilian and Korean subsidiaries; and (b) those asserting allegations relating to the *MoistureLoc* withdrawal.

There is a consolidated derivative action asserting allegations relating to accounting issues at the Company's Brazilian and Korean subsidiaries, entitled *In re Bausch & Lomb Incorporated Derivative Litigation*, Case Nos. 06-cv-6298 (master file) and 06-cv-6299, pending in Federal District Court for the Western District of New York, Rochester Division, against certain present and former officers and directors of the Company, and also naming the Company as nominal defendant. Initially, two separate derivative actions were filed in April 2006 in Federal District Court for the Southern District of New York, and were later transferred to the Western District of New York and consolidated. Among other things, plaintiffs allege that the individual defendants breached their fiduciary duties to the Company by causing or allowing the Company to issue materially false and misleading public statements regarding the Company's financial condition and operations that failed to disclose negative information about the Company's Brazilian and Korean subsidiaries and internal controls, thereby inflating the price of Company stock during the relevant time period.

On May 16, 2007, plaintiffs filed a First Amended Verified Shareholder Derivative and Class Action Complaint (First Amended Complaint) against the current members of the Board of Directors, certain current and former officers, certain former board members, as well as Warburg Pincus, and naming the Company as nominal defendant. In addition to realleging the prior derivative claims, the First Amended Complaint sets forth direct claims on behalf of a putative class of the Company's shareholders against the current director defendants alleging that the directors have breached their fiduciary duties to shareholders in connection with entering into the merger agreement with Warburg Pincus pursuant to which affiliates of Warburg Pincus will acquire all of the outstanding shares of our Common stock for $65.00 in cash as announced on May 16, 2007, and a claim against Warburg Pincus for aiding and abetting such breach. With respect to the derivative claims, plaintiffs (i) purport to allege damage to the Company as a result of, among other things, a decrease in the Company's market capitalization, exposure to liability in securities fraud actions, and the costs of internal investigations and financial restatements, and (ii) seek unspecified damages as well as certain declaratory and injunctive relief, including for misappropriation of inside information for personal benefit by certain of the individual defendants. With respect to the direct class claims, plaintiffs (i) purport to allege damage to shareholders as a result of, among other things, the Company having entered into a proposed transaction that is unfair to shareholders, including because the per share price offered is allegedly inadequate and consummation of the proposed transaction risks extinguishing their derivative claims, and (ii) seek injunctive relief against the proposed transaction. Pursuant to a stipulated schedule ordered by the Court, defendants have 60 days to answer or otherwise respond to the First Amended Complaint.

On January 3, 2006, the Company received a demand letter dated December 28, 2005, from a law firm not involved in the derivative actions described above, on behalf of a shareholder who also is not involved in the derivative actions, demanding that the Board of Directors bring claims on behalf of the Company based on allegations substantially similar to those that were later alleged in the two derivative actions relating to accounting issues at the Brazilian and Korean subsidiaries. In response to the demand letter, the Board of Directors adopted a board resolution establishing an Evaluation Committee (made up of independent directors) to investigate, review and analyze the facts and circumstances surrounding the allegations made in the demand letter, but reserving to the full Board authority and discretion to exercise its business judgment in respect of the proper disposition of the demand. The Committee has engaged independent outside counsel to advise it.

There are also two purported derivative actions asserting allegations relating to the *MoistureLoc* withdrawal. The first case, entitled *Little v. Zarrella*, Case No. 06-cv-6337, was filed in June 2006 in the Federal District Court for the Southern District of New York and was transferred to the Western District of New York, Rochester Division, where it is currently pending against certain directors of the Company, and also naming the Company as nominal defendant. The second case, entitled *Pinchuck v. Zarrella*, Case No. 06-6377, was filed in June 2006 in the Supreme Court of the State of New York, County of Monroe, against the directors of the Company, and also naming the Company as nominal defendant. Among other things, plaintiffs in these actions allege that the individual defendants breached their fiduciary duties to the Company in connection with the Company's handling of the *MoistureLoc* withdrawal. Plaintiffs purport to allege damage to the Company as a result of, among other things, costs of litigating product liability and personal injury lawsuits, costs of the product recall, costs of carrying out internal investigations, and the loss of

goodwill and reputation. Plaintiffs seek unspecified damages as well as certain declaratory and injunctive relief.

Pursuant to a stipulated schedule ordered by the Court, plaintiff in the state court *Pinchuck* action served an amended complaint on September 15, 2006 and defendants served a motion to dismiss the amended complaint on November 15, 2006. On March 30, 2007, the Court granted the Company's motion to dismiss the *Pinchuck* action. On April 25, 2007, plaintiff submitted a demand letter dated April 24, 2007, demanding that the Board bring claims on behalf of the Company against all current Board members based on allegations that the Board members breached their fiduciary duties to the Company with respect to the handling of the recall of *ReNu* with *MoistureLoc*. The Board of Directors is reviewing the demand letter and will respond in due course. Pursuant to a stipulated schedule ordered by the Court in the federal *Little* action, plaintiff in that case will have until 60 days after a ruling on a motion to dismiss in the consolidated securities action is entered or, if no such motion is filed, 60 days after defendants' answer to a consolidated amended complaint in the consolidated securities action is filed, to file an amended complaint.

Product Liability Lawsuits As of May 25, 2007, the Company has been served or is aware that it has been named as a defendant in approximately 419 product liability lawsuits pending in various federal and state courts as well as certain other non-U.S. jurisdictions. Of the 419 cases, 180 actions have been filed in U.S. federal courts, 236 cases have been filed in various U.S. state courts and three actions have been filed in non-U.S. jurisdictions. These also include 394 individual actions filed on behalf of individuals who claim they suffered personal injury as a result of using a *ReNu* solution and 25 putative class actions alleging personal injury as a result of using a *ReNu* solution and/or violations of one or more state consumer protection statutes. In the personal injury actions, plaintiffs allege liability based on, among other things, negligence, strict product liability, failure to warn and breach of warranty. In the consumer protection actions, plaintiffs seek economic damages, claiming that they were misled to purchase products that were not as safe as advertised. Several lawsuits contain a combination of these allegations. On August 14, 2006, the Judicial Panel on Multidistrict Litigation (JPML) created a coordinated proceeding and transferred an initial set of *MoistureLoc* product liability lawsuits to the U.S. District Court for the District of South Carolina. The Company has advised the JPML of all federal cases available for transfer and has urged the issuance of conditional transfer orders. As of May 25, 2007, 162 of the 180 federal cases noted above have been transferred to the JPML.
These cases and claims involve complex legal and factual questions relating to causation, scientific evidence, actual damages and other matters. Litigation of this type is also inherently unpredictable, particularly given that these matters are at an early stage, there are many claimants and many of the claimants seek unspecified damages. Accordingly, it is not possible at this time to predict the outcome of these matters or reasonably estimate a range of possible loss. At this time, we have not recorded any provisions for potential liability in these matters, except that we have made provisions in connection with a small number of claims. While we intend to vigorously defend these matters, we could in future periods incur judgments or enter into settlements that individually or in the aggregate could have a material adverse effect on our results of operations and financial condition in any such period.

Material Intellectual Property Litigation In October 2005, Rembrandt Vision Technologies, L.P. filed a patent infringement lawsuit against the Company and CIBA Vision Corporation. The action is entitled, *Rembrandt Vision Technology, L.P. v. Bausch & Lomb Incorporated and CIBA Vision Corporation*, bearing case number 2:05 CV 491, and is pending in the U.S. District Court for the Eastern District of Texas (Marshall Division). Rembrandt asserts that the Company and CIBA have infringed certain of Rembrandt’s oxygen permeability and tear-wettability technology that it claims to be protected by a U.S. Patent No. 5,712,327 entitled “Soft Gas Permeable Lens Having Improved Clinical Performance” (the 327 Patent). Rembrandt claims that the Company infringes the 327 Patent by selling soft gas permeable contact lenses that have tear-wettable surfaces in the U.S., which would include the Company’s *PureVision* silicone hydrogel lens products. The Company denies, and intends to vigorously defend itself against, Rembrandt’s claims. The Court has issued a scheduling order and has set a trial date of November 5, 2007.

Material Tax Litigation As disclosed in *Item 8. Financial Statements and Supplementary Data* under *Note 10 — Provision for Income Taxes* of the 2005 and 2006 Form 10-K, on May 12, 2006, the Company received a Notice of Final Partnership Administrative Adjustment from the Internal Revenue Service relating to partnership tax periods ended June 4, 1999 and December 25, 1999, for Wilmington Partners L.P. (Wilmington), a partnership formed in 1993 in which the majority of partnership interests are held by certain of the Company's subsidiaries. The Final Partnership Administrative Adjustment (FPAA) proposes adjustments increasing the ordinary income reported by Wilmington for its December 25, 1999 tax year by a total of $10.0, and increasing a long-term capital gain reported by Wilmington for that tax year by $189.9. The FPAA also proposes a $550.0 negative adjustment to Wilmington's basis in a financial asset contributed to it by one of its partners in 1993; this adjustment would also affect the basis of that partner — one of the Company's subsidiaries — in its partnership interest in Wilmington. The asserted adjustments could, if sustained in full, increase the tax liabilities of the partnership's partners for the associated tax periods by more than $200.0, plus penalties and interest. The Company has not made any financial provision for the asserted additional taxes, penalties or interest as the Company believes the asserted adjustments are not probable and estimable.
Since 1999, the Company's consolidated financial statements have included a deferred tax liability relating to the partnership. As of December 30, 2006, this deferred tax liability equaled $157.5. This deferred tax liability is currently reducing net deferred tax assets for which a valuation allowance exists as of December 30, 2006.
On August 7, 2006, the Company made a petition to the U.S. Tax Court to challenge the asserted adjustments. Internal Revenue Service's answer was filed on October 4, 2006, and the Company initiated a motion to strike portions of the answer on November 1, 2006. The Company believes it has numerous substantive and procedural tax law arguments to dispute the adjustments. Tax, penalties and interest cannot be assessed until a Tax Court determination is made, and an assessment, if any, would likely not be made until some time after 2007. While the Company intends to vigorously defend against the asserted adjustments, its failure to succeed in such a defense could significantly increase the liability of the partnership's partner for taxes, plus interest and penalties, which in turn would have a material adverse effect on the Company's financial results and cash flows.

General Litigation Statement From time to time, the Company is engaged in, or is the subject of, various lawsuits, claims, investigations and proceedings, including product liability, patent, trademark, commercial and other matters, in the ordinary course of business. See *Part II Item 1. Legal Proceedings* of this Quarterly Report on Form 10-Q.
In addition to pending litigation matters, the Company may from time to time learn of alleged non-compliance with laws or regulations or other improprieties through compliance hotlines, communications by employees, former employees or other third parties, as a result of its internal audit procedures, or otherwise. In response to such allegations, the Company’s Audit Committee conducted certain investigations during 2005 and 2006, which led, among other things, to the restatement of previously reported financial information and the recording of current charges. The restatement, in turn, resulted in the Company’s being unable to file timely certain periodic financial information and the Company’s obtaining certain waivers from creditors.
As previously reported, the Audit Committee of the Board of Directors had commenced an investigation of the potential Foreign Corrupt Practices Act implications of the Company's Spanish subsidiary's providing free product, principally intraocular lenses used in cataract surgery, and other things of value to doctors performing surgical procedures in public facilities in Spain. This investigation was initiated following reports of potentially improper sales practices by a former employee and was voluntarily reported to the Northeast Regional Office of the SEC. The Audit Committee's investigation is now complete and found no evidence that the Company's senior management in Rochester or regional management in London authorized, directed, controlled or knowingly acquiesced in the subject sales practices engaged in by the Company's Spanish subsidiary. It also appears that, in certain instances, the Spanish subsidiary's provision of free product and other things of value to doctors and hospitals in Spain were not appropriately documented or accurately recorded in the subsidiary's books and records. We cannot predict the outcome or potential liability of the Company or its Spanish subsidiary in connection with these matters, which may also raise issues under local laws.

The Company’s policy is to comply with applicable laws and regulations in each jurisdiction in which it operates and, if the Company becomes aware of a potential or alleged violation, to conduct an appropriate investigation, to take appropriate remedial action and to cooperate fully with any related governmental inquiry. There can be no assurance that any pending or future investigation or resulting remedial action will not have a material adverse financial, operational or other effect on the Company.

---

15. Market Withdrawal of *MoistureLoc* Lens Care Solution

On May 15, 2006, the Company announced a voluntary recall of its *MoistureLoc* lens care solution. The decision was made following an investigation into an increase in fungal infections among contact lens wearers in the United States and certain Asian markets. The Company’s decision to recall the product represented a subsequent event occurring prior to filing its 2005 Form 10-K, but related to product manufactured and sold in 2005. In accordance with GAAP, the Company recorded certain items associated with the recall in its 2005 financial results. The adjustments were recorded as 2005 third-quarter events, because that was the earliest reporting period for which the Company had not filed quarterly financial results on Form 10-Q. The Company incurred additional charges, primarily in Europe, associated with the *MoistureLoc* recall for product manufactured and sold in 2006. These charges reduced first quarter 2006 earnings before income taxes by $26.7 and net income by $19.6 or $0.35 per share (based on local statutory rates), of which approximately $19.1 is associated with sales returns and other reductions to reported net sales. The voluntary recall has been further described in the Company’s 2005 Form 10-K and the 2006 Form 10-K.

16. Subsequent Event

On May 16, 2007, the Company entered into a definitive merger agreement with affiliates of Warburg Pincus in a transaction valued at approximately $4.5 billion, including approximately $830 of debt. Under the terms of the agreement, Warburg Pincus will acquire all the outstanding shares of the Company's Common stock for $65.00 per share. The transaction is subject to customary closing conditions, including the approval of the Company's shareholders and regulatory approvals. Closing is not subject to any financing condition. A Special Committee of the Company's Board of Directors may solicit superior proposals from third parties through July 5, 2007. If a superior proposal leads to the execution of a definitive agreement, the Company would be obligated to pay a $40 break-up fee to Warburg Pincus.

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

Bausch & Lomb is a global eye health company dedicated to perfecting vision and enhancing life for consumers around the world. We develop, manufacture and sell contact lenses and lens care products, ophthalmic pharmaceuticals and products used in ophthalmic surgery. With products available in more than 100 countries, the *Bausch & Lom*