MENTOR CORP /MN/
Form 10-Q
February 13, 2004

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 December 31, 2003

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 No. 0-7955

MENTOR CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Minnesota (State or other jurisdiction of incorporationn or organization)	41-0950791 (IRS Employer Identification No.)

201 Mentor Drive, Santa Barbara, California 93111
(Address of Principal Executive Offices) (Zip Code)
Registrant's telephone number including area code: 805/879-6000

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 such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No o

As of February 12, 2004, there were approximately 43,778,157 Common Shares, par value $.10 outstanding.

MENTOR CORPORATION
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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Mentor Corporation
Consolidated Balance Sheets
(Unaudited)

(in thousands)	**December 31, 2003**	March 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	**$ 173,310**	$ 105,840
Marketable securities	**227**	184
Accounts receivable, net	**80,620**	79,784
Inventories	**71,987**	61,269
Deferred income taxes	**16,253**	15,253
Prepaid expenses and other	**16,407**	10,858
Total current assets	**358,804**	273,188
Property and equipment, net	**79,178**	68,671
Intangible assets, net	**54,158**	35,570
Goodwill, net	**20,973**	16,520
Long-term marketable securities and investments	**9,376**	3,741
Other assets	**538**	398
	$ 523,027	$ 398,088

See notes to condensed consolidated financial statements.

Mentor Corporation
Consolidated Balance Sheets
(Unaudited)

(in thousands)	**December 31, 2003**	March 31, 2003
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	**$ 25,654**	$ 26,759
Warranty and related reserves	**22,535**	19,989
Accrued compensation	**16,297**	18,753
Short-term bank borrowings	**10,337**	8,176
Sales returns	**11,107**	10,455
Income taxes payable	**661**	453
Current portion of purchase price related to acquired technologies and acquisitions	**5,565**	5,698
Dividends payable	**6,590**	925
Accrued royalties	**710**	770
Other	**14,585**	13,214
Total current liabilities	**114,041**	105,192
Deferred income taxes	**2,201**	2,216
Long-term accrued liabilities	**15,058**	13,970
Convertible subordinated notes	**150,000**	-
Commitments and contingencies		
Shareholders' equity:		
Common Stock, $.10 par value:		
Authorized - 150,000,000 shares; Issued and outstanding--		
43,930,800 shares at December 31, 2003;		
46,237,324 shares at March 31, 2003;	**4,393**	4,624
Capital in excess of par value	**-**	-
Foreign currency translation adjustments	**20,745**	6,511
Net unrealized (losses) on securities	**(10)**	(112)
Retained earnings	**216,599**	265,687
	241,727	276,710
	$ 523,027	$ 398,088

See notes to condensed consolidated financial statements.

Mentor Corporation
Consolidated Statements of Income
Three Months Ended December 31, 2003 and 2002
(Unaudited)

	Three Months Ended December 31,	
(in thousands, except per share data)	**2003**	2002
Net sales	**$ 106,502**	$ 94,039
Cost of sales	**40,461**	38,167
Gross profit	**66,041**	55,872
Selling, general, and administrative expense	**40,627**	32,194
Research and development expense	**7,216**	5,799
	47,843	37,993
Operating income	**18,198**	17,879
Interest expense	**(371)**	(245)
Interest income	**394**	599
Other income, net	**182**	526
Income before income taxes	**18,403**	18,759
Income taxes	**5,863**	5,777
Net income	**$ 12,540**	$ 12,982
Basic earnings per share	**$ 0.27**	$ 0.28
Diluted earnings per share	**$ 0.26**	$ 0.27
Dividends per share	**$ 0.15**	$ 0.02
Weighted average shares outstanding		
Basic	**45,769**	46,380
Diluted	**47,916**	48,453

See notes to condensed consolidated financial statements.

Mentor Corporation
Consolidated Statements of Income
Nine Months Ended December 31, 2003 and 2002
(Unaudited)

	Nine Months Ended December 31,	
(in thousands, except per share data)	**2003**	2002
Net sales	**$ 304,871**	$ 281,302
Cost of sales	**115,395**	114,081
Gross profit	**189,476**	167,221
Selling, general, and administrative expense	**110,205**	94,236
Research and development expense	**22,470**	16,538
	132,675	110,774
Operating income	**56,801**	56,447
Interest expense	**(681)**	(782)
Interest income	**1,113**	1,831
Other income, net	**1,107**	1,731
Income before income taxes	**58,340**	59,227
Income taxes	**18,529**	16,990
Net income	**$ 39,811**	$ 42,237
Basic earnings per share	**$ 0.86**	$ 0.90
Diluted earnings per share	**$ 0.82**	$ 0.87
Dividends per share	**$ 0.32**	$ 0.05
Weighted average shares outstanding		
Basic	**46,239**	46,685
Diluted	**48,291**	48,697

See notes to condensed consolidated financial statements.

Mentor Corporation
Consolidated Statements of Cash Flows
Nine Months Ended December 31, 2003 and 2002
(Unaudited)

(in thousands)	**2003**	2002
Cash From Operating Activities:		
Net income	**$ 39,811**	$ 42,237
Adjustments to derive cash flows from operating activities:		
Depreciation	**9,770**	8,884
Amortization	**2,522**	2,915
Deferred income taxes	**(1,452)**	(2,481)
Tax benefit from exercise of stock options	**2,895**	2,567
Loss (gain) on sale of assets	**20**	(413)
Imputed interest on long-term liabilities	**194**	457
Loss (gain) on sale long-term marketable securities	**136**	(403)
Changes in operating assets and liabilities:		
Accounts receivable	**3,441**	2,275
Inventories	**(6,845)**	(5,933)
Prepaid income taxes and other current assets	**(3,725)**	2,658
Accounts payable and accrued liabilities	**1,588**	6,489
Income taxes payable	**171**	(4,006)
Foreign currency transaction (gain)	**(1,325)**	(247)
Net cash provided by operating activities	**$ 47,201**	$ 54,999
Cash From Investing Activities:		
Purchases of property and equipment	**(14,200)**	(11,960)
Purchases of intangibles	**(3,890)**	(808)
Purchases of marketable securities	**(28,331)**	(3,215)
Sales of marketable securities	**21,634**	6,277
Acquisitions, net of cash acquired	**(13,391)**	(10,603)
Proceeds from sale of property, equipment and intangibles	**-**	500
Net cash (used) for investing activities	**(38,178)**	(19,809)
Cash From Financing Activities:		
Issuance of convertible notes, net issuance costs	**115,540**	-
Sale of warrants	**11,891**	-
Repurchase of common stock	**(68,895)**	(19,997)
Proceeds from exercise of stock options	**6,896**	6,358
Dividends paid	**(8,855)**	(2,110)
Borrowings (repayments) under line of credit agreements, net	**804**	(3,316)
Net cash (used) provided by financing activities	**57,381**	(19,065)
Effect of currency exchange rates on cash and cash equivalents	**1,066**	1,217
Increase in cash and cash equivalents	**67,470**	17,342
Cash and cash equivalents at beginning of year	**105,840**	60,398
Cash and cash equivalents at end of period	**$ 173,310**	$ 77,740
Supplemental non-cash investing activity		
Issuance of common stock in acquisition of intangible assets	**$ 3,000**	$ -

MENTOR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003

Note A - Business Activity

Mentor Corporation (the "Company") was incorporated in April 1969. The Company develops, manufactures and markets a broad range of products for the medical specialties in three reportable segments: aesthetic and general surgery (plastic and reconstructive surgery), surgical urology, and clinical and consumer healthcare. The Company's products are sold by our multiple sales forces directly to hospitals, clinics and physicians, and through various healthcare dealers, wholesalers, distributors and retail outlets. The aesthetic and general surgery products segment consists primarily of breast implants, tissue expanders and the Company's body contouring (liposuction) equipment and disposables. The surgical urology segment includes penile implants, surgical incontinence products, and brachytherapy seeds for the treatment of prostate cancer and associated supplies and delivery systems. The clinical and consumer healthcare segment includes catheters and other disposable products for the management of urinary incontinence and retention.

Note B - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained. For those subsidiaries where the Company owns less than 100%, the outside shareholders' interests are treated as minority interests. All intercompany accounts and transactions have been eliminated. Certain prior year amounts in previously issued financial statements have been reclassified to conform to the current year presentation.

Basis of Presentation

The financial information for the three and nine-month periods ended December 31, 2003 and 2002 is unaudited but includes all adjustments (consisting only of normally recurring accruals, unless otherwise indicated) which the Company considers necessary for a fair presentation of the results of operations for these periods. Interim results are not necessarily indicative of results for the full fiscal year.

Use of Estimates

Financial statements prepared in accordance with accounting principles generally accepted in the United States require management to make estimates and judgments that affect amounts and disclosures reported in the financial statements. Actual results could differ from those estimates. A discussion of the Company’s significant accounting policies is described in the “Application of Critical Accounting Policies” section of “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Stock Split, Changes in Authorized Shares and Move to NYSE

On December 13, 2002, the Board of Directors authorized a two-for-one stock split in the form of a 100% stock dividend distributed on or about January 17, 2003 to shareholders of record as of December 31, 2002. All references in the financial statements to number of shares, per share amounts and market prices of the Company's common stock, have been retroactively restated to reflect the increased number of common shares outstanding.

At the annual meeting of shareholders held on September 12, 2002, the shareholders approved a proposal to amend the Company's Restated Articles of Incorporation to increase authorized shares from 50,000,000 to 150,000,000.

Effective August 5, 2003 the Company's shares began trading on the New York Stock Exchange under the symbol MNT.

Effects of Recent Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 148, Accounting for Stock-Based Compensation - Transition and Disclosure, effective for fiscal years ending after December 15, 2002. SFAS 148 amends SFAS 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirement of SFAS 123 to require more prominent disclosures, in both annual and interim financial statements, about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted the additional disclosure requirements of SFAS 148 and has elected to continue to follow the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25 (or APB 25), Accounting for Stock Issued to Employees, to account for employee stock options.

In May 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", effective for contracts entered into or modified after September 30, 2003 and for hedging relationships designated after September 30, 2003. This rule amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, to provide more consistent reporting of contracts as either derivatives or hybrid instruments. The adoption of SFAS No. 149 did not have a material impact on the results of operations or the financial position of the Company.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after September 15, 2003. The adoption of SFAS No. 150 did not have a material impact on the results of operations or the financial position of the Company.

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities ("VIE"). FIN 46 defines a variable interest entity as a corporation, partnership, trust, or any other legal structure that does not have equity investors with a controlling financial interest or that has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46, effective for interests held by public companies in variable interest entities or potential variable interest entities created before February 1, 2003, requires consolidation of a VIE by the primary beneficiary of the assets, liabilities, and results of activities. FIN 46 also requires certain disclosures by all holders of a significant variable interest in a VIE that are not the primary beneficiaries. The adoption of this interpretation did not have any impact on the Company’s consolidated financial position or results of operations.

Note C - Interim Reporting

The Company's three quarterly interim reporting periods are each thirteen-week periods ending on the Friday nearest the end of the third calendar month of each calendar quarter. The fiscal year end remains March 31st. To facilitate ease of presentation, each interim period is shown as if it ended on the last day of the appropriate calendar month. The actual dates for each of the three interim quarters-end are shown below:

	Fiscal 2004	Fiscal 2003
First Quarter	June 27, 2003	June 28, 2002
Second Quarter	September 26, 2003	September 27, 2002
Third Quarter	January 2, 2004	December 27, 2002

The accompanying unaudited condensed consolidated financial statements for the three-month and nine-month periods ended December 31, 2003 and 2002 have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of normally recurring accruals, unless otherwise indicated) considered necessary for a fair presentation of the results of operations for the indicated periods have been included. Certain amounts recorded in previous periods have been reclassified to conform to the current period presentation. Operating results for the three-month and nine- month periods ended December 31, 2003 are not necessarily indicative of the results for the full fiscal year.

The balance sheet at March 31, 2003 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended March 31, 2003.

Note D - Cash Equivalents, Marketable Securities, and Long-Term Marketable Securities and Investments

All highly liquid investments with maturities of three months or less at the date of purchase are considered to be cash equivalents.

The Company considers its marketable securities available-for-sale as defined in SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Realized gains and losses and declines in value considered to be other than temporary are included in income. The cost of securities sold is based on the specific identification method. For short-term marketable securities, there were no material realized or unrealized gains or losses, nor were there any material differences between estimated fair values, based on quoted market prices, and the costs of securities in the investment portfolio as of December 31, 2003 and March 31, 2003. Short-term investments, except auction rate securities, mature between three months and one year from the purchase date. The Company's short-term marketable securities consist primarily of money market mutual funds, U.S., state and municipal government obligations, auction rate securities, and investment grade corporate obligations including commercial paper. Auction rate securities carry interest or dividend rates that reset every 28 days but have contractual maturities of greater than one year.

The Company's long-term marketable securities and investments include investments in Federal Home Loan Bank and Mortgage Association bonds (FHLA bonds) with maturities of two to four years. The Company has an investment in Paradigm Medical Industries, Inc. Paradigm reported financial and operational difficulties and its quoted market prices decreased substantially during the year ended March 31, 2003. In the quarter ended March 31, 2003, the Company determined the decrease in market prices were more than temporary and recorded a one-time impairment charge of $1,857,000 pre-tax in other income, net. The remaining investment in Paradigm is recorded at $122,000 at December 31, 2003.

Available-for-sale investments at December 31, 2003 were as follows:

(in thousands)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash balances	**$ 17,243**	**$ -**	**$ -**	**$ 17,243**
Money market mutual funds	**156,067**			**156,067**
Marketable equity securities	**114**	**8**		**122**
U.S., State and Municipal agency obligations	**9,227**		**(24)**	**9,203**
Corporate debt securities	**278**			**278**
Total available-for-sale investments	**$ 182,929**	**$ 8**	**$ (24)**	**$182,913**
Included in cash and cash equivalents	**$ 173,310**	**$ -**	**$ -**	**$173,310**
Included in current marketable securities	**227**			**227**
Included in long-term marketable securities and investments	**9,392**	**8**	**(24)**	**9,376**
Total available-for-sale investments	**$ 182,929**	**$ 8**	**$ (24)**	**$182,913**

Available-for-sale investments at March 31, 2003 were as follows:

(in thousands)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash balances	$ 16,733	$ -	$ -	$ 16,733
Bank time deposits	-	-	-	-
Money market mutual funds	89,107	-	-	89,107
Marketable equity securities	3,493	7	(2,040)	1,460
U.S., State and Municipal agency obligations	2,184	3	-	2,187
Corporate debt securities	278	-	-	278
Total available-for-sale investments	$ 111,795	$ 10	$ (2,040)	$ 109,765
Included in cash and cash equivalents	$ 105,840	$ -	$ -	$ 105,840
Included in current marketable securities	184	-	-	184
Included in long-term marketable securities and investments	5,771	10	(2,040)	3,741
Total available-for-sale investments	$ 111,795	$ 10	$ (2,040)	$ 109,765

Note E - Inventories

Inventories are stated at the lower of cost or market, cost determined by the first-in, first-out (FIFO) method. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

Inventories at December 31, 2003 and March 31, 2003 consisted of:

(in thousands)	**December 31,**	March 31,
Raw materials	**$ 12,373**	$ 12,175
Work in process	**10,178**	10,894
Finished goods	**49,436**	38,200
	$ 71,987	$ 61,269

Note F - Property and Equipment

Property and equipment is stated at cost. Depreciation is based on the useful lives of the properties and computed using the straight-line method. Buildings are depreciated over 30 years, furniture and equipment over 3 to 10 years and leasehold improvements over the shorter of their estimated remaining lives or lease term. Significant improvements and betterments are capitalized while maintenance and repairs are charged to operations as incurred.

Property and equipment at December 31, 2003 and March 31, 2003 consisted of:

(in thousands)	**December 31,**	March 31,
Land	**$ 568**	$ 538
Buildings	**24,183**	24,595
Leasehold improvements	**23,978**	23,551
Furniture, fixtures and equipment	**96,012**	79,032
Construction in progress	**10,617**	6,620
	155,358	134,336
Less accumulated depreciation	**(76,180)**	(65,665)
	$ 79,178	$ 68,671

Note G - Warranties

The Company provides an accrual for the estimated cost of product warranties and product liability claims at the time revenue is recognized. Such accruals are based on estimates, which are based on relevant factors such as historical experience, the warranty period, estimated costs, levels of insurance and insurance retentions, identified product quality issues, if any, and, to a limited extent, information developed by the insurance company using actuarial techniques. The Company assesses the adequacy of these accruals periodically and adjusts the amounts as necessary based on actual experience and changes in future expectations.

Information on changes in the Company's accrued warranties and related reserves are as follows:

	Nine Months Ended December 31,	
(in thousands)	**2003**	2002
Beginning warranty and related reserves	**$19,989**	$16,252
Costs of warranty claims	**(2,876)**	(2,997)
Accruals for product warranties	**5,422**	5,646
Ending warranty and related reserves	**$22,535**	$18,901

Note H - Other Comprehensive Income

The components of comprehensive income are listed below:

	Three Months Ended December 31,		Nine Months Ended December 31,	
(in thousands)	**2003**	2002	**2003**	2002
Net income	**$12,540**	$12,982	**$39,811**	$42,237
Foreign currency translation adjustment	**8,381**	4,446	**14,239**	11,039
Unrealized gains (losses) on marketable securities and investment activities, net	**(44)**	(60)	**102**	(1,757)
Comprehensive income	**$20,877**	$17,368	**$54,152**	$51,519

Note I - Stock Options

The Company has granted options to key employees and non-employee directors under its Amended 2000 Long-Term Incentive Plan (2000 Plan) and 1991 Plan. Options granted under both plans are exercisable in four equal annual installments beginning one year from the date of grant, and expire ten years from the date of grant. Options are granted at the fair market value as of the date of grant. Options to purchase 1,073,135 shares of common stock at $21.00 per share were granted during the quarter ended June 30, 2003. No grants were made in the quarter ended September 30, 2003. Options to purchase 150,000 shares of common stock at $21.70 per share were granted during the quarter ended December 31, 2003.

Stock option exercise prices are set at the fair market value of the Company's common stock on the date of grant and the related number of shares granted is fixed at that point in time. Therefore, under the principles of APB Opinion 25, the Company does not recognize compensation expense associated with the grant of stock options. SFAS 123 "Accounting for Stock-Based Compensation", requires the use of an option valuation model to provide supplemental information regarding options granted after fiscal 1995. Pro forma information regarding net income and earnings per share shown below were determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The estimated fair value of the options is amortized ratably over the option's vesting period. As required by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123", the following table shows the estimated effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS 123 to stock-based employee compensation. The Company's pro forma information is as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
(in thousands except per share data)	**2003**	2002	**2003**	2002
Net income: as reported (1)	**$ 12,540**	$12,982	**$39,811**	$42,237
Deduct: compensation expense fair value method	**(2,179)**	(1,602)	**(5,795)**	(4,806)
Net income: pro forma	**$ 10,361**	$11,380	**$34,016**	$37,431
Basic earnings per share: as reported	**$ .27**	$ .28	**$ .86**	$ .90
Basic earnings per share: pro forma	**$ .23**	$ .25	**$ .74**	$ .80
Diluted earnings per share: as reported	**$ .26**	$ .27	**$ .82**	$ .87
Diluted earnings per share: pro forma	**$ .22**	$ .23	**$ .72**	$ .77

(1) Net income as reported includes no compensation expense associated with stock grants.

Note J - Income Taxes

The effective rate of corporate income taxes was 31.8% and 28.7% for the nine-month periods ended December 31, 2003 and 2002, respectively. The effective tax rate for the nine-month period ended December 2002 reflects refunds received in the first, second and third quarters of fiscal 2003 related to the amendment of tax returns for the Company's foreign sales corporation.

Note K - Earnings per Share

Basic Earnings per share is computed by dividing net income available to common shareholders by the weighted average number of shares of the Company's common shares outstanding during the period. Diluted earnings per share is calculated in the same manner as basic earnings per share except that the number of shares outstanding is increased by potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of shares issuable under the terms of employee stock options, warrants, and the 2¾% convertible subordinated notes. A reconciliation of weighted average shares outstanding, used to calculate basic earnings per share, to weighted average shares outstanding assuming dilution, used to calculate diluted earnings per share, follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
(in thousands)	**2003**	2002	**2003**	2002
Weighted average outstanding shares: basic	**45,769**	46,380	**46,239**	46,685
Shares issuable upon conversion of 2¾% of convertible subordinated notes	**-**	-	**-**	-
Shares issuable upon exercise of stock options	**2,147**	2,073	**2,052**	2,012
Shares issuable upon exercise of warrants	**-**	-	**-**	-
Weighted average outstanding shares: diluted	**47,916**	48,453	**48,291**	48,697

Shares issuable through stock options are determined using the treasury stock method. Certain potential shares issuable under the terms of employee stock options and upon the conversion of the 2¾% convertible subordinated notes were excluded from the computation of diluted earnings per share since their exercise or conversion prices were greater than the market prices of the common shares during or at the end of the period, and accordingly, their effect would have been anti-dilutive. Additionally, during the quarter ended December 31, 2003, the price of the Company's stock did not exceed the specific strike prices of the convertible bond hedge or the warrants that the Company entered into to reduce the potential dilution from any conversion of the notes. Both the bond hedge and the warrants transaction may be settled at the Company's option, either in cash or shares, and expire on January 1, 2009.

Note L - Share Repurchase Program

The Company has a stock repurchase program, primarily to offset the dilutive effect of our employee stock option program, to provide liquidity to the market and to reduce the overall number of shares outstanding. All shares repurchased under the program are retired and are no longer deemed to be outstanding. In May 1999, the Board of Directors authorized the repurchase of 9.2 million shares of our stock. Each year shares have been repurchased including 1.4 million shares for $22.3 million and 1.5 million shares for $18.7 million in the years ended March 31, 2003 and 2002, respectively. At March 31, 2003, 1.8 million shares were remaining under this authorization. On July 31, 2003 the Board of Directors increased the authorized number of shares to be repurchased from 1.8 million to 4 million shares. On December 5, 2003, the Board of Directors increased the authorized number of shares to be repurchased by 5 million shares from 2.5 million to 7.5 million shares. Since April 1, 2003, 3.4 million shares have been repurchased for $75.1 million and 5.6 million shares remain authorized for repurchase. The timing of repurchases is subject to market conditions, cash availability, and blackout periods during which the Company is restricted from repurchasing shares. There is no guarantee that shares authorized for repurchase by the Board will ultimately be repurchased.

Note M - Acquisitions

<u>Portex Ltd.</u>

On May 6, 2002, the Company purchased the assets of the urology and ostomy businesses of Portex Ltd., a subsidiary of Smiths Group plc. The acquired businesses, now named Mentor Medical, Ltd., manufactures and markets incontinence and ostomy products primarily for the home healthcare market. The products are sold mainly in the UK, Germany and the Netherlands. The acquisition was valued at $11,232,000, of which $10,603,000 was paid in cash, plus an acquired liability of $629,000. The acquisition was accounted for using SFAS No. 141, "Business Combinations," using the purchase method of accounting, and the purchase price was allocated to the tangible and intangible net assets acquired on the basis of their respective fair values on the acquisition date. The total purchase price was preliminarily allocated to inventory of $3,150,000, buildings of $739,000, production equipment of $1,185,000, leasehold improvements of $621,000, patents, trademarks and licenses of $731,000 and goodwill and other inta