

COOPER COMPANIES INC  
Form 10-Q  
June 08, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For Quarterly Period Ended April 30, 2007

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-8597

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**The Cooper Companies, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**94588**  
(Zip Code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

| Class                         | Outstanding at May 31, 2007 |
|-------------------------------|-----------------------------|
| Common Stock, \$.10 par value | 44,783,966 Shares           |

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands, except for earnings per share)

(Unaudited)

|  | Three Months Ended<br>April 30, |            | Six Months Ended<br>April 30, |            |
|--|---------------------------------|------------|-------------------------------|------------|
|  | 2007                            | 2006       | 2007                          | 2006       |
| Net sales  | \$ 225,535                      | \$ 211,397 | \$ 444,955                    | \$ 417,136 |
| Cost of sales  | 99,079                          | 80,034     | 188,587                       | 156,612    |
| Gross profit   | 126,456                         | 131,363    | 256,368                       | 260,524    |
| Selling, general and administrative expense                    | 100,934                         | 88,600     | 198,457                       | 173,046    |
| Research and development expense                               | 7,957                           | 13,914     | 19,068                        | 19,846     |
| Restructuring costs  | 2,842                           | 866        | 4,707                         | 2,206      |
| Amortization of intangibles                                    | 4,192                           | 3,503      | 7,843                         | 7,232      |
| Operating income   | 10,531                          | 24,480     | 26,293                        | 58,194     |
| Interest expense   | 10,918                          | 7,787      | 20,710                        | 20,300     |
| Other income (expense), net                                    | 9                               | (1,100)    | 828                           | (2,178)    |
| (Loss) income before income taxes                              | (378)                           | 15,593     | 6,411                         | 35,716     |
| Provision for income taxes                                     | 149                             | 1,892      | 1,590                         | 4,061      |
| Net (loss) income  | (527)                           | 13,701     | 4,821                         | 31,655     |
| Add interest charge applicable to convertible debt, net of tax |                                 | 523        |                               | 1,045      |
| (Loss) income for calculating diluted earnings per share       | \$ (527)                        | \$ 14,224  | \$ 4,821                      | \$ 32,700  |
| Earnings per share:  |                                 |            |                               |            |
| Basic  | \$ (0.01)                       | \$ 0.31    | \$ 0.11                       | \$ 0.71    |
| Diluted  | \$ (0.01)                       | \$ 0.30    | \$ 0.11                       | \$ 0.69    |
| Number of shares used to compute earnings per share:           |                                 |            |                               |            |
| Basic  | 44,645                          | 44,520     | 44,606                        | 44,508     |
| Diluted  | 44,645                          | 47,577     | 45,012                        | 47,606     |

See accompanying notes.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

(Unaudited)

|  | April 30,<br>2007 | October 31,<br>2006 |
|--|-------------------|---------------------|
| <b>ASSETS</b>  |                   |                     |
| Current assets:  |                   |                     |
| Cash and cash equivalents  | \$ 12,033         | \$ 8,224            |
| Trade accounts receivable, net of allowance for doubtful accounts of \$5,512 at April 30, 2007 and \$5,523 at October 31, 2006 | 156,772           | 146,584             |
| Inventories, net   | 261,612           | 236,512             |
| Deferred tax assets  | 18,703            | 19,659              |
| Prepaid expense and other current assets   | 49,423            | 45,972              |
| Total current assets   | 498,543           | 456,951             |
| Property, plant and equipment, at cost   | 717,717           | 637,428             |
| Less: accumulated depreciation and amortization  | 161,614           | 141,071             |
|  | 556,103           | 496,357             |
| Goodwill   | 1,260,489         | 1,217,084           |
| Other intangibles, net   | 147,493           | 147,160             |
| Deferred tax assets  | 23,412            | 21,479              |
| Other assets   | 23,709            | 13,570              |
|  | \$2,509,749       | \$ 2,352,601        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                   |                     |
| Current liabilities:   |                   |                     |
| Short-term debt  | \$ 48,417         | \$ 23,516           |
| Current portion of long-term debt  |                   | 37,850              |
| Accounts payable   | 52,434            | 66,080              |
| Employee compensation and benefits   | 28,567            | 29,755              |
| Accrued acquisition costs  | 24,530            | 36,901              |
| Accrued income taxes   | 33,457            | 28,534              |
| Other current liabilities  | 69,180            | 53,994              |
| Total current liabilities  | 256,585           | 276,630             |
| Long-term debt   | 817,446           | 681,286             |
| Deferred tax liability   | 11,681            | 9,494               |
| Accrued pension liability and other  | 6,297             | 6,682               |
| Total liabilities  | 1,092,009         | 974,092             |
| Commitments and Contingencies (see Note 13)  |                   |                     |

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Stockholders' equity:

|   |                     |                     |
|---|---------------------|---------------------|
| Preferred stock, 10 cents par value, shares authorized: 1,000; zero shares issued or outstanding                            |                     |                     |
| Common stock, 10 cents par value, shares authorized: 70,000; issued 45,111 at April 30, 2007 and 44,966 at October 31, 2006 | 4,511               | 4,497               |
| Additional paid-in capital  | 1,009,880           | 993,713             |
| Accumulated other comprehensive income  | 57,759              | 38,711              |
| Retained earnings   | 351,484             | 348,000             |
| Treasury stock at cost: 384 shares at April 30, 2007 and 418 shares at October 31, 2006                                     | (5,894)             | (6,412)             |
| <b>Stockholders' equity</b>   | <b>1,417,740</b>    | <b>1,378,509</b>    |
|   | <b>\$ 2,509,749</b> | <b>\$ 2,352,601</b> |

See accompanying notes.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

|   | <b>Six Months Ended<br/>April 30,</b> |                  |
|---|---------------------------------------|------------------|
|   | <b>2007</b>                           | <b>2006</b>      |
| <b>Cash flows from operating activities:</b>                  |                                       |                  |
| Net income  | \$ 4,821                              | \$ 31,655        |
| Depreciation and amortization                                 | 32,939                                | 29,273           |
| Decrease in operating capital                                 | (8,511)                               | (17,843)         |
| Other non-cash items  | 19,185                                | 33,279           |
| <b>Net cash provided by operating activities</b>              | <b>48,434</b>                         | <b>76,364</b>    |
| <b>Cash flows from investing activities:</b>                  |                                       |                  |
| Purchases of property, plant and equipment                    | (90,090)                              | (83,479)         |
| Acquisitions of businesses, net of cash acquired              | (68,793)                              | (61,235)         |
| <b>Net cash used in investing activities</b>                  | <b>(158,883)</b>                      | <b>(144,714)</b> |
| <b>Cash flows from financing activities:</b>                  |                                       |                  |
| Net proceeds (repayments) of short-term debt                  | 22,721                                | 11,772           |
| Repayments of long-term debt                                  | (839,964)                             | (622,700)        |
| Proceeds from long-term debt                                  | 938,200                               | 662,750          |
| Debt acquisition costs  | (11,226)                              | (625)            |
| Dividends on common stock                                     | (1,337)                               | (1,335)          |
| Excess tax benefit from share-based compensation Arrangements | 176                                   | 1,510            |
| Proceeds from exercise of stock options                       | 5,313                                 | 2,500            |
| <b>Net cash provided by financing activities</b>              | <b>113,883</b>                        | <b>53,872</b>    |
| Effect of exchange rate changes on cash and cash equivalents  | 375                                   | 207              |
| <b>Net increase (decrease) in cash and cash equivalents</b>   | <b>3,809</b>                          | <b>(14,271)</b>  |
| Cash and cash equivalents beginning of period                 | 8,224                                 | 30,826           |
| <b>Cash and cash equivalents end of period</b>                | <b>\$ 12,033</b>                      | <b>\$ 16,555</b> |

See accompanying notes.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

|   | Three Months Ended<br>April 30, |           | Six Months Ended<br>April 30, |           |
|---|---------------------------------|-----------|-------------------------------|-----------|
|   | 2007                            | 2006      | 2007                          | 2006      |
| Net (loss) income                                     | \$ (527)                        | \$ 13,701 | \$ 4,821                      | \$ 31,655 |
| Other comprehensive income:                           |                                 |           |                               |           |
| Foreign currency translation adjustment               | 10,675                          | 9,472     | 19,875                        | 12,353    |
| Change in value of derivative instruments, net of tax | (3,347)                         | 1,113     | (827)                         | 1,101     |
| Minimum pension liability adjustment, net of tax      |                                 |           |                               | 197       |
| Other comprehensive income                            | 7,328                           | 10,585    | 19,048                        | 13,651    |
| Comprehensive income                                  | \$ 6,801                        | \$ 24,286 | \$ 23,869                     | \$ 45,306 |

See accompanying notes.



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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

Note 1. General

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

CooperVision (CVI) markets, develops and manufactures a broad range of contact lenses for the worldwide vision care market. Its leading products are disposable and planned replacement lenses.

CooperSurgical (CSI) markets, develops and manufactures medical devices, diagnostic products and surgical instruments and accessories used primarily by gynecologists and obstetricians.

During interim periods, we follow the accounting policies described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006. Please refer to this when reviewing this Quarterly Report on Form 10-Q. Certain prior period amounts have been reclassified to conform to the current period's presentation. Readers should not assume that the results reported here either indicate or guarantee future performance.

The unaudited consolidated condensed financial statements presented in this report contain all adjustments necessary to present fairly Cooper's consolidated financial position at April 30, 2007 and October 31, 2006, the consolidated results of its operations for the three and six months ended April 30, 2007 and 2006 and its cash flows for the six months ended April 30, 2007 and 2006. Most of these adjustments are normal and recurring. However, certain adjustments associated with recent acquisitions and the related financial arrangements are of a nonrecurring nature.

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

**Estimates and Critical Accounting Policies**

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

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

**Allowance for doubtful accounts** Our reported balance of accounts receivable, net of the allowance for doubtful accounts, represents our estimate of the amount that ultimately will be realized in cash. We review the adequacy of our allowance for doubtful accounts on an ongoing basis, using historical payment trends and the age of the receivables and knowledge of our individual customers. When our analyses indicate, we increase or decrease our allowance accordingly. However, if the financial condition of our customers were to deteriorate, additional allowances may be required. While estimates are involved, bad debts historically have not been a significant factor given the diversity of our customer base, well established historical payment patterns and the fact that patients require satisfaction of healthcare needs in both strong and weak economies.

**Net realizable value of inventory** In assessing the value of inventories, we must make estimates and judgments regarding aging of inventories and other relevant issues potentially affecting the saleable condition of products and estimated prices at which those products will sell. On an ongoing basis, we review the carrying value of our inventory, measuring number of months on hand and other indications of salability, and reduce the value of inventory if there are indications that the carrying value is greater than market. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. While estimates are involved, historically, obsolescence has not been a significant factor due to long product dating and lengthy product life cycles. We target to keep, on average, about seven months of inventory on hand to maintain high customer service levels given the complexity of our specialty lens product portfolio.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Valuation of goodwill** We account for goodwill and evaluate our goodwill balances and test them for impairment in accordance with the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142). The SFAS 142 goodwill impairment test is a two-step process. Initially, we compare the book value of net assets to the fair value of each reporting unit that has goodwill assigned to it. If the fair value of a reporting unit is determined to be less than the book value, a second step is performed to compute the amount of the impairment. When available and as appropriate, we use comparative market multiples to corroborate fair value results. A reporting unit is the level of reporting at which goodwill is tested for impairment.

Our reporting units are the same as our business segments CVI and CSI reflecting the way that we manage our business. We test goodwill for impairment annually during the third fiscal quarter and when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. We performed an impairment test in our third fiscal quarter 2006, and our analysis indicated that we had no impairment of goodwill. The valuation of each of our reporting units was determined using a combination of discounted cash flows, an income valuation approach and the guideline company method, a market valuation approach.

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

**Income taxes** The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

involve complex issues and may require an extended period to resolve. Frequent changes in tax laws in each jurisdiction complicate future estimates. To determine the quarterly tax rate, we are required to estimate full-year income and the related income tax expense in each jurisdiction. We update the estimated effective tax rate for the effect of significant unusual items as they are identified. Changes in the geographic mix or estimated level of annual pre-tax income can affect the overall effective tax rate, and such changes could be material.

Share-based compensation Effective November 1, 2005, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R) as interpreted by SEC Staff Accounting Bulletin No. 107, using the modified prospective transition method. Periods prior to adoption have not been restated. See Note 10. Stock Plans in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006, for a further description of the impact of the adoption of SFAS 123R and the Company's share-based compensation plans.

Under the fair value recognition provisions of SFAS 123R, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating Cooper's stock price volatility, employee stock option exercise behaviors and employee option forfeiture rates.

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

As share-based compensation expense recognized in the Consolidated Statement of Operations is based on awards ultimately expected to vest, the amount of expense has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience.

If factors change and the Company employs different assumptions in the application of SFAS 123R, the compensation expense that it records in future periods may differ significantly from what it has recorded in the current period.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**New Accounting Pronouncements**

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company's financial statements and the related financial statement disclosures. SAB 108 permits public companies to initially apply its provisions either by (i) restating prior financial statements or (ii) recording the cumulative effect as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of retained earnings. The Company is required to adopt SAB 108 by the end of fiscal 2007. The Company has not completed its analysis but does not expect adoption to have a significant impact on the Company's results of operations or financial condition.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact SFAS 157 will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. This statement is effective for financial statements as of the end of fiscal years ending after December 15, 2006. The Company is currently evaluating the impact SFAS 158 will have on its consolidated financial statements.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 applies to all tax positions related to income taxes subject to Statement SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). Under FIN 48, a company would recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. FIN 48 clarifies how a company would measure the income tax benefits from the tax positions that are recognized, provides guidance as to the timing of the derecognition of previously recognized tax benefits and describes the methods for classifying and disclosing the liabilities within the financial statements for any unrecognized tax benefits. FIN 48 also addresses when a company should record interest and penalties related to tax positions and how the interest and penalties may be classified within the income statement and presented in the balance sheet. FIN 48 is effective for fiscal years beginning after December 15, 2006. For the Company, FIN 48 will be

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

effective for our 2008 fiscal year. Differences between the amounts recognized prior to and after the adoption of FIN 48 would be accounted for as a cumulative effect adjustment to the beginning balance of retained earnings. The Company is currently evaluating FIN 48 and its possible impacts on the Company's financial statements. Upon adoption, there is a possibility that the cumulative effect would result in a charge or benefit to the beginning balance of retained earnings, increases or decreases in future effective tax rates, and/or increases in future effective tax rate volatility.

In February 2007, FASB Issued SFAS No. 159, *Establishing the Fair Value Option for Financial Assets and Liabilities* (SFAS 159). The Financial Accounting Standards Board has issued SFAS 159 to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS 159 applies to fiscal years beginning after November 15, 2007, or our 2009 fiscal year, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS 157, *Fair Value Measurements*. An entity is prohibited from retrospectively applying SFAS 159, unless it chooses early adoption. SFAS 159 also applies to eligible items existing at November 15, 2007 (or early adoption date). The Company has not completed its analysis but does not expect the adoption of SFAS 159 to have a material effect on the Company's financial condition.

Note 2. Acquisitions

**Acquisition of Wallach Surgical Devices, Inc. (Wallach):** On February 22, 2007, CSI acquired all of the outstanding shares of Wallach. Wallach's products consist of various diagnostic and therapeutic medical instruments primarily for in-office use in women's healthcare and other specialty instruments relating to dermatology, ophthalmology, anesthesiology, dentistry and veterinary medicine. We are in the process of obtaining a third-party valuation of the business using income approach valuation methodology. Research and development assets, if any, with no alternative future use will be written off to research and development in our consolidated statement of operations once determined.

We paid \$20.0 million in cash for Wallach and have initially ascribed \$16.7 million to goodwill, \$0.5 million to working capital (including acquisition costs of \$2.1 million), \$4.7 million to other intangible assets, \$0.3 million to property, plant and equipment and \$2.6 million to deferred tax liability. The allocation of the purchase price is subject to refinement as we are currently obtaining a third-party valuation of the business, using income approach valuation methodology. Subsequent adjustments could be material. Research and development assets, if any, with no alternative future use will be written off to research and development in our consolidated statement of operations once determined.

**Lone Star Medical Products, Inc. (Lone Star):** On November 2, 2006, Cooper acquired all of the outstanding shares of Lone Star, a manufacturer of medical devices that improve the management of the surgical site, most notably the *Lone Star Retractor System*, which places a retraction ring around the surgical incision providing greater exposure of the surgical field.



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

We estimate that the total restructuring costs under this integration plan, exclusive of accrued acquisition related costs, will be approximately \$45 - \$50 million, of which approximately \$25 - \$30 million is cash related, and will be reported as cost of sales or restructuring costs in our Consolidated Statements of Operations. The following table summarizes the restructuring costs incurred under this integration plan through April 30, 2007.

|   | Plant<br>Shutdown | Severance | Asset<br>Impairments<br>(In millions) | Other   | Total   |
|---|-------------------|-----------|---------------------------------------|---------|---------|
| Restructuring costs incurred:                 |                   |           |                                       |         |         |
| Through October 31, 2006                      | \$ 2.6            | \$ 4.4    | \$ 3.4                                | \$ 9.4  | \$ 19.8 |
| For the six-month period ended April 30, 2007 | 1.4               | 2.6       | 6.2                                   | 3.0     | 13.2    |
|   | \$ 4.0            | \$ 7.0    | \$ 9.6                                | \$ 12.4 | \$ 33.0 |

Restructuring costs reported in our Consolidated Statements of Operations also include costs related to less significant restructuring activities within our consolidated organization.

Note 4. Inventories, Net

|                 | April 30,<br>2007 | October 31,<br>2006 |
|-----------------|-------------------|---------------------|
|                 | (In thousands)    |                     |
| Raw materials   | \$ 35,648         | \$ 31,368           |
| Work-in-process | 16,617            | 19,774              |
| Finished goods  | 209,347           | 185,370             |
|                 | \$261,612         | \$ 236,512          |

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



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 5. Intangible Assets**Goodwill**

|   | CVI          | CSI<br>(In thousands) | Total        |
|---|--------------|-----------------------|--------------|
| Balance as of November 1, 2005  | \$ 1,047,538 | \$ 121,511            | \$ 1,169,049 |
| Net (reductions) additions during the year ended October 31, 2006           | (2,339)      | 48,204                | 45,865       |
| Other adjustments*  | 2,170        |                       | 2,170        |
| Balance as of October 31, 2006  | \$ 1,047,369 | \$ 169,715            | \$ 1,217,084 |
| Net (reductions) additions during the six-month period ended April 30, 2007 | (1,188)      | 41,617                | 40,429       |
| Other adjustments*  | 2,976        |                       | 2,976        |
| Balance as of April 30, 2007  | \$ 1,049,157 | \$ 211,332            | \$ 1,260,489 |

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

**Other Intangible Assets**

|   | As of April 30, 2007     |  | As of October 31, 2006   |  |
|---|--------------------------|--|--------------------------|--|
|   | Gross Carrying<br>Amount | Accumulated<br>Amortization<br>& Translation | Gross Carrying<br>Amount | Accumulated<br>Amortization<br>& Translation |
|   | (In thousands)           |  |                          |  |
| Trademarks                                    | \$ 2,907                 | \$ 350                                       | \$ 1,807                 | \$ 231                                       |
| Technology                                    | 89,482                   | 23,793                                       | 88,950                   | 19,739                                       |
| Shelf space and market share                  | 79,986                   | 12,148                                       | 73,486                   | 9,007  |
| License and distribution rights and other     | 17,142                   | 5,733  | 17,070                   | 5,176  |
|   | 189,517                  | \$ 42,024                                    | 181,313                  | \$ 34,153                                    |
| Less accumulated amortization and translation | 42,024                   |  | 34,153                   |  |
| Other intangible assets, net                  | \$ 147,493               |  | \$ 147,160               |  |

We estimate that amortization expense will be about \$15.4 million per year in the five-year period ending October 31, 2011.

During the first fiscal quarter of 2007, payments of \$4.2 million related to a license agreement to distribute gynecological medical devices were written-off as acquired in-process research and development, as the products are pending Food and Drug Administration approval.



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 6. Debt

|   | April 30,<br>2007 | October 31,<br>2006 |
|---|-------------------|---------------------|
|   | (In thousands)    |                     |
| <b>Short-term:</b>  |                   |                     |
| Overdraft and other credit facilities                             | \$ 48,417         | \$ 23,516           |
| Current portion of long-term debt                                 |                   | 37,850              |
|   | \$ 48,417         | \$ 61,366           |
| <b>Long-term:</b>   |                   |                     |
| Convertible senior debentures, net of discount of 2,324 and 2,396 | \$ 112,676        | \$ 112,604          |
| Revolver  | 354,400           | 605,300             |
| Senior Notes  | 350,000           |                     |
| Other   | 370               | 1,232               |
|   | 817,446           | 719,136             |
| Less current portion  |                   | 37,850              |
|   | \$ 817,446        | \$ 681,286          |

**Credit Facility:** On January 31, 2007, Cooper refinanced its existing \$750 million syndicated bank credit facility, which consisted of a \$250 million term loan and a \$500 million revolving credit facility, with a new \$650 million syndicated Senior Unsecured Revolving Line of Credit (Revolver) and \$350 million aggregate principal amount of 7.125% of Senior Notes, described below. The refinancing extended the maturity and provided additional borrowing flexibility along with lower overall pricing relative to the prior agreement. In addition, the Company has the ability from time to time to increase the size of the Revolver by up to an additional \$250 million. KeyBank led the Revolver refinancing, which resulted in a number of the banks retaining or increasing their participation in the agreement. The Revolver matures on January 31, 2012.

Interest rates for the Revolver are based on the London Interbank Offered Rate (LIBOR) plus additional basis points determined by certain ratios of debt to pro forma earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the credit agreement. These range from 75 to 150 basis points. As of April 30, 2007, the additional basis points were 125.

**The Revolver:**

Requires that the ratio of Consolidated Pro Forma EBITDA to Consolidated Interest Expense (as defined, Interest Coverage Ratio ) be at least 3.0 to 1.0 at all times.

Requires that the ratio of Consolidated Funded Indebtedness to Consolidated Pro Forma EBITDA (as defined, Total Leverage Ratio ) be no higher than 4.00 to 1.00 from January 31, 2007 through October 31, 2009, and 3.75 to 1.00 thereafter.



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

At April 30, 2007, the Company's Interest Coverage Ratio was 6.33 to 1.00 and the Total Leverage Ratio was 3.63 to 1.00.

The Company wrote off about \$0.9 million of debt issuance costs in interest expense as a result of extinguishing the term loan. The remaining \$1.7 million of existing debt issuance costs and the \$10.4 million of costs incurred to refinance the Revolver and Notes are carried in other assets and amortized to interest expense over the life of the credit facility.

At April 30, 2007, we had \$295.4 million available under the Revolver:

| <b>(In millions)</b> |                 |
|----------------------|-----------------|
| Amount of Revolver   | \$ 650.0        |
| Outstanding loans    | (354.6)*        |
| <b>Available</b>     | <b>\$ 295.4</b> |

\* Includes \$0.2 million in letters of credit

**Senior Notes:** On January 31, 2007, the Company issued \$350 million aggregate principal amount of 7.125% Senior Notes (the Notes) due February 15, 2015. The Notes were offered in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. The Notes pay interest semi-annually on February 15 and August 15 of each year, beginning August 15, 2007. We may redeem some or all of the Notes at any time prior to February 15, 2011, at a price equal to 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest to the redemption date and a make-whole premium. We may redeem some or all of the Notes at any time on or after February 15, 2011, at the redemption prices (expressed as percentages of principal amounts) set forth below, plus accrued and unpaid interest to the redemption date and additional interest (if we fail to comply with certain obligations under the registration rights agreement that we entered in connection with the Notes (Additional Interest)), if any, on the Notes redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on February 15 of the years indicated below:

| <b>Year</b>         | <b>Percent</b> |
|---------------------|----------------|
| 2011                | 103.56%        |
| 2012                | 101.78%        |
| 2013 and thereafter | 100.00%        |

In addition, prior to February 15, 2010, we may redeem up to 35% of the Notes at a price equal to 107.13% of the principal amount of the Notes redeemed plus accrued and unpaid interest to the redemption date and Additional Interest, if any, on the Notes redeemed to the applicable redemption date, from the proceeds of certain equity offerings.

Net proceeds from the issuance totaled approximately \$342.6 million.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Under the indenture governing the Notes, our ability to incur indebtedness and pay distributions is subject to restrictions and the satisfaction of various conditions. In addition, the indenture imposes restrictions on certain other customary matters, such as limitations on certain investments, transactions with affiliates, the incurrence of liens, sale and leaseback transactions, certain asset sales and mergers.

The Notes are our senior unsecured obligations and rank equally with all of our existing and future senior unsecured obligations and senior to our subordinated indebtedness. The Notes are effectively subordinated to our existing and future secured indebtedness to the extent of the assets securing that indebtedness. On the issue date, certain of our direct and indirect subsidiaries entered into unconditional guarantees of the Notes that are unsecured. These guarantees rank equally with all existing and future unsecured senior obligations of the guarantors and are effectively subordinated to existing and future secured debt of the guarantors to the extent of the assets securing that indebtedness. The Notes are structurally subordinated to indebtedness and other liabilities, including payables, of our non-guarantor subsidiaries.

**Canadian Credit Facility:** On April 30, 2007, the Company entered into a \$10 million Canadian dollar credit facility supported by a continuing and unconditional guaranty. Interest expense is calculated on outstanding balances based on an applicable base rate plus a fixed spread. At April 30, 2007, \$7.3 million of the facility was utilized. The weighted average interest rate on the outstanding balances at April 30, 2007, was 6.5%.

**European Credit Facilities:** On November 1, 2006, the Company entered into a \$45 million European credit facility supported by a continuing and unconditional guaranty, which replaced our previous European overdraft facility. The Company will pay all forms of indebtedness in the currency in which it is denominated for those certain subsidiaries. Interest expense is calculated on all outstanding balances based on an applicable base rate for each country plus a fixed spread common across all subsidiaries covered under the guaranty. At April 30, 2007, \$20.7 million of the facility was utilized. The weighted average interest rate on the outstanding balances was 4.77%.

In addition to the \$45 million European Credit Facilities, the Company has two non-guaranteed Italian overdraft facilities totaling approximately \$7 million. At April 30, 2007, these facilities were not utilized.

**Asian Pacific Credit Facilities:** On February 22, 2006, the Company entered into a \$15 million Yen-denominated credit facility in Japan supported by a continuing and unconditional guaranty. The Company will pay to the bank all forms of indebtedness in Yen upon demand by the bank. Interest expense is calculated on the outstanding balance based on the EuroYen rate plus a fixed spread. At April 30, 2007, \$14.0 million of the facility was utilized. The weighted average interest rate on the outstanding balances was 1.32%.

During the three months ended April 30, 2007, the Company entered into an additional \$13 million overdraft facility that included Japan and certain of our Asian Pacific subsidiaries.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

This overdraft facility is supported by a continuing and unconditional guaranty. The Company will pay all forms of indebtedness in the currency in which it is denominated for those certain subsidiaries. Interest expense is calculated on all outstanding balances based on an applicable base rate for each country plus a fixed spread common across all subsidiaries covered under the guaranty. At April 30, 2007, \$5.2 million of the facility was utilized. The interest rate on the outstanding balances was 1.32%.

**Note 7. Derivative Instruments**

We operate multiple foreign subsidiaries that manufacture and/or sell our products worldwide. As a result, our earnings, cash flows and financial position are exposed to foreign currency risk from foreign currency denominated receivables and payables, sales transactions, capital expenditures and net investment in certain foreign operations. Our policy is to minimize transaction, remeasurement and specified economic exposures with derivative instruments including forward contracts. The gains and losses on foreign exchange forward contracts are intended to at least partially offset the transaction gains and losses recognized in earnings. We do not enter into foreign exchange forward contracts for trading or speculative purposes. Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), all derivatives are recorded on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify, or are not effective as cash flow hedges, must be recognized currently in earnings.

**Cash Flow Hedging**

In November 2006, the Company entered into approximately \$400 million of foreign currency forward contracts with maturities of up to thirteen months to reduce foreign currency fluctuations related to forecasted foreign currency denominated purchases and sales of product. The derivatives are accounted for as cash flow hedges under SFAS 133 and are expected to be effective through their maturities.

**Interest Rate Swaps**

Effectiveness testing of the hedge relationship and measurement to quantify ineffectiveness is performed at the end of each fiscal quarter using the hypothetical derivative method. The interest rate swaps have been and are expected to remain highly effective for the life of the hedges. The fixed rates on the outstanding swaps are between 3.98% and 4.02%. As of April 30, 2007, the fair value of the outstanding swaps, approximately \$2.4 million, was recorded as an asset and the effective offset is recorded in other comprehensive income (OCI) in our Consolidated Balance Sheet.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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(Unaudited)

On January 31, 2007, Cooper refinanced its existing \$750 million syndicated bank credit facility, with a \$650 million syndicated Senior Unsecured Revolving Line of Credit (Revolver) and \$350 million aggregate principal amount of 7.125% Senior Notes. As part of this new debt structure, the Company terminated an interest rate swap with a notional value of \$125 million on January 30, 2007. This interest rate swap was set to mature on February 7, 2009, and the Company settled it and received \$1.1 million from the counterparty. As a result of the termination of the interest rate swap, the Company realized a gain of approximately \$1 million. The Company will amortize this gain from OCI to interest expense over the original life of the interest rate swap. During the six months ended April 30, 2007, approximately \$200,000 of effective gains were amortized from OCI to interest expense. Effective amounts are amortized to interest expense as the related hedged expense is incurred. As of April 30, 2007, we estimated that approximately \$0.5 million will be amortized during fiscal year 2007. During the six months ended April 30, 2007, approximately \$0.2 million of ineffective gains were reclassified from OCI to interest expense.

On May 3, 2007, Cooper terminated two \$125 million floating-to-fixed interest rate swaps that were set to mature on February 7, 2008. The Company received a total of \$3.2 million from the counterparties as a result of these swap terminations and used the proceeds to reduce our outstanding debt. The Company realized a gain of approximately \$2.4 million that will be amortized from OCI to interest expense over the original life of the interest rate swaps. Effective amounts are amortized to interest expense as the related hedged expense is incurred. As of April 30, 2007, we estimated that approximately \$1.7 million will be amortized during fiscal year 2007.

Concurrent with these interest rate swap terminations, the Company reset its fixed rate debt structure under the Revolver to extend maturities by entering into four new interest rate swaps on May 3, 2007. These new interest rate swaps, totaling \$250 million, serve to fix the floating rate debt under the Revolver for terms between 30 and 48 months with fixed rates between 4.94% to 4.96%.



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 8. Earnings Per Share (EPS)

|  | Three Months Ended<br>April 30,              |           | Six Months Ended<br>April 30, |           |
|--|--|-----------|-------------------------------|-----------|
|  | 2007   | 2006      | 2007                          | 2006      |
|  | (In thousands, except for per share amounts) |           |                               |           |
| Net (loss) income  | \$ (527)                                     | \$ 13,701 | \$ 4,821                      | \$ 31,655 |
| Add interest charge applicable to convertible debt, net of tax |  | 523       |                               | 1,045     |
| (Loss) income for calculating diluted earnings per share       | \$ (527)                                     | \$ 14,224 | \$ 4,821                      | \$ 32,700 |
| Basic:   |  |           |                               |           |
| Weighted average common shares                                 | 44,645                                       | 44,520    | 44,606                        | 44,508    |
| Basic (loss) earnings per common share                         | \$ (0.01)                                    | \$ 0.31   | \$ 0.11                       | \$ 0.71   |
| Diluted:   |  |           |                               |           |
| Weighted average common shares                                 | 44,645                                       | 44,520    | 44,606                        | 44,508    |
| Effect of dilutive stock options                               |  | 467       | 406                           | 508       |
| Shares applicable to convertible debt                          |  | 2,590     |                               | 2,590     |
| Diluted weighted average common shares                         | 44,645                                       | 47,577    | 45,012                        | 47,606    |
| Diluted (loss) earnings per common share                       | \$ (0.01)                                    | \$ 0.30   | \$ 0.11                       | \$ 0.69   |

The following table sets forth stock options to purchase Cooper's common stock and common shares applicable to convertible debt that are not included in the diluted net loss per share calculation because to do so would be anti-dilutive for the periods presented:

|  | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | April 30,          |                  | April 30,        |                  |
|  | 2007               | 2006             | 2007             | 2006             |
| Stock options to purchase common stock                 | 4,901,535          | 2,129,133        | 3,187,783        | 2,129,133        |
| Exercise prices  | \$ 15.35-\$80.51   | \$ 55.33-\$80.51 | \$ 52.40-\$80.51 | \$ 55.33-\$80.51 |
| Number of common shares applicable to convertible debt | 2,590,090          |                  | 2,590,090        |                  |

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Note 9. Share-Based Compensation Plans**

The Company has two share-based compensation plans, which include stock options and restricted stock awards. The 2007 Long-Term Incentive Plan, as amended (2007 LTIP) and the 2006 Long-Term Incentive Plan for Non-Employee Directors (2006 Directors Plan) are the only plans with stock awards currently available for grant as of April 30, 2007. The 2007 LTIP has replaced the Second Amended and Restated 2001 Long-Term Incentive Plan (2001 LTIP), which expired in December 2006 by its terms. The 2006 Directors Plan has replaced the 1996 Long-Term Incentive Plan for Non-Employee Directors (1996 Directors Plan), which expired in November 2005 by its terms.

**Share-Based Compensation**

Compensation cost associated with share-based awards recognized in fiscal 2007 and fiscal 2006 includes: 1) amortization related to the remaining unvested portion of all stock option awards granted prior to November 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and 2) amortization related to all stock option awards granted on or subsequent to November 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The compensation and related income tax benefit recognized in the Company's consolidated financial statements for stock options and restricted stock awards were as follows:

|  | Three Months Ended |        | Six Months Ended |        |
|--|--------------------|--------|------------------|--------|
|  | April 30,          |        | April 30,        |        |
|  | 2007               | 2006   | 2007             | 2006   |
|  | (In millions)      |        |                  |        |
| Selling, general and administrative expenses | \$ 2.7             | \$ 3.1 | \$ 9.4           | \$ 7.9 |
| Cost of products sold                        | 0.3                | 0.1    | 0.6              | 0.1    |
| Research and development expense             | 0.2                | 0.1    | 0.4              | 0.2    |
| Restructuring costs                          | 0.8                |        | 0.8              |        |
| Capitalized in inventory                     | 0.5                | 0.3    | 1.0              | 0.6    |
| Total compensation expense                   | \$ 4.5             | \$ 3.6 | \$ 12.2          | \$ 8.8 |
| Related income tax benefit                   | \$ 1.0             | \$ 0.7 | \$ 3.1           | \$ 2.1 |

Cash received from options exercised under all share-based payment arrangements for the three and six months ended April 30, 2007, was \$3.8 million and \$5.3 million, respectively. Cash received from options exercised under all share-based payment arrangements for the three and six months ended April 30, 2006, was \$0.4 million and \$2.5 million, respectively.

Details regarding the valuation and accounting for stock options follow.

The fair value of each share-based award granted after the adoption of SFAS 123R is estimated on the date of grant using the Black-Scholes option valuation model and fair value assumptions. The expected life of the awards is based on the observed and expected time to post-vesting forfeiture and/or exercise. Groups of employees that have similar historical

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Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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(Unaudited)

The fair value of each option award granted during the three and six months ended April 30, 2007 and 2006 was estimated on the date of grant using the Black-Scholes option valuation model and weighted-average assumptions in the following table.

|                         | Three Months Ended |                   | Six Months Ended |                   |
|-------------------------|--------------------|-------------------|------------------|-------------------|
|                         | April 30,          |                   | April 30,        |                   |
|                         | 2007               | 2006              | 2007             | 2006              |
| Expected life           | 2.71 to 2.8 years  | 4.42 to 5.16 yrs. | 2.8 to 5.16 yrs. | 3.56 to 5.16 yrs. |
| Expected volatility     | 29.3% to 30.4%     | 29.5% to 30.2%    | 30.0% to 30.4%   | 29.5% to 30.8%    |
| Risk-free interest rate | 4.5% to 4.73%      | 4.38% to 4.52%    | 4.47% to 4.73%   | 4.37% to 4.52%    |
| Dividend yield          | 0.09% to 0.117%    | 0.09%             | 0.09%            | 0.09%             |

The status of the Company's stock option plans at April 30, 2007, is summarized below:

|  | Number of Shares | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Term (in Years) | Aggregate Intrinsic Value |
|--|------------------|---|--|---------------------------|
| Outstanding at October 31, 2006          | 4,988,468        | \$ 52.73                                  |  |                           |
| Granted                                  | 155,400          | \$ 56.92                                  |  |                           |
| Exercised                                | (171,333)        | \$ 28.50                                  |  |                           |
| Forfeited or expired                     | (71,000)         | \$ 67.32                                  |  |                           |
| Outstanding at April 30, 2007            | 4,901,535        | \$ 53.50                                  | 6.40   | \$                        |
| Vested and exercisable at April 30, 2007 | 1,993,694        | \$ 40.95                                  | 5.77   | \$ 16,263,265             |

The weighted-average fair value of each option granted during the three and six months ended April 30, 2007, estimated as of the grant date using the Black-Scholes option pricing model, for the 2007 LTIP was \$13.79. For the 2001 LTIP and for the Directors Plans, there were no options granted during the three months ended April 30, 2007. The weighted-average fair value of each option granted during the six months ended April 30, 2007, estimated as of the grant date using the Black-Scholes option pricing model, for the 2001 LTIP and Directors Plans was \$10.61 and \$20.36, respectively. The total intrinsic value of options exercised during the three months and six months ended April 30, 2007 was \$3 million and \$3.3 million, respectively. The expected requisite service periods for options granted in both the three and six months ended April 30, 2007, for employees was 33 months. Directors' options and restricted stock grants are expensed on the date of grant as the 2006 Directors Plan does not contain a substantive future requisite service period.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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(Unaudited)

Stock awards outstanding under the Company's current plans have been granted at prices which are either equal to or above the market value of the stock on the date of grant. Options granted under the 2007 LTIP and the 2001 LTIP generally vest over three and one-half to five years based on market and service conditions and expire no later than ten years after the grant date. Options granted under the 2006 Directors Plan and the 1996 Directors Plan generally vest in five years or upon achievement of a market condition and expire no later than ten years after the grant date. Effective November 1, 2005, the Company generally recognizes compensation expense ratably over the vesting period. As of April 30, 2007, there was \$34.3 million of total unrecognized compensation cost related to nonvested options, which is expected to be recognized over a remaining weighted-average vesting period of 3.02 years.

Note 10. Income Taxes

Cooper's effective tax rate (ETR) (provision for income taxes divided by pretax income) for the first half of fiscal 2007 was 24.81 percent. Accounting principles generally accepted in the United States of America (GAAP) require that the projected fiscal year ETR be included in the year-to-date results. The ETR used to record the provision for income taxes for the six-month period ended April 30, 2006, was 11.37 percent. The increase in the 2007 ETR reflects certain expenses associated with the Ocular integration plan impacting jurisdictions with lower tax rates.

Note 11. Employee Benefits

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

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Cooper's results of operations for the three and six months ended April 30, 2007 and 2006 reflect the following pension costs.

|  | Three Months Ended<br>April 30, |        | Six Months Ended<br>April 30, |          |
|--|---------------------------------|--------|-------------------------------|----------|
|  | 2007                            | 2006   | 2007                          | 2006     |
|  | (In thousands)                  |        |                               |          |
| Components of net periodic pension cost: |                                 |        |                               |          |
| Service cost                             | \$ 714                          | \$ 761 | \$ 1,429                      | \$ 1,501 |
| Interest cost                            | 453                             | 398    | 906                           | 786      |
| Expected returns on assets               | (458)                           | (420)  | (916)                         | (841)    |
| Amortization of prior service cost       | 8                               | 8      | 15                            | 14       |
| Amortization of transition obligation    | 7                               | 6      | 13                            | 14       |
| Recognized net actuarial loss            | 42                              | 109    | 85                            | 225      |
| Net periodic pension cost                | \$ 766                          | \$ 862 | \$ 1,532                      | \$ 1,699 |

No pension contributions were made during either period.

**Note 12. Cash Dividends**

We paid a semiannual dividend of approximately \$1.3 million or 3 cents per share on January 5, 2007, to stockholders of record on December 15, 2006.

On May 11, 2007, we announced that the Company declared a semiannual dividend of 3 cents per share payable on July 5, 2007, to stockholders of record on June 13, 2007.

**Note 13. Contingencies****Legal Proceedings**

The Company is from time to time involved in various litigation and legal matters arising in the normal course of its business operations. By describing any particular matter, the Company does not intend to imply that it or its legal advisors have concluded or believe that the outcome of any of those particular matters is or is not likely to have a material adverse impact upon the Company's consolidated financial position, cash flows or results of operations.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

On February 15, 2006, Alvin L. Levine filed a putative securities class action lawsuit in the United States District Court for the Central District of California, Case No. SACV-06-169 CJC, against the Company, A. Thomas Bender, its Chairman of the Board, President and Chief Executive Officer and a director, Robert S. Weiss, its Executive Vice President, Chief Operating Officer and a director, and John D. Fruth, a director. Two similar putative class action lawsuits were also filed in the United States District Court for the Central District of California, Case Nos. SACV-06-306 CJC and SACV-06-331 CJC. On May 19, 2006, the Court consolidated all three actions under the heading In re Cooper Companies, Inc. Securities Litigation and selected a lead plaintiff and lead counsel pursuant to the provisions of the Private Securities Litigation Reform Act of 1995, 15 U.S.C. § 78u-4.

The lead plaintiff filed a consolidated complaint on July 31, 2006. The consolidated complaint was filed on behalf of all purchasers of the Company's securities between July 28, 2004, and December 12, 2005, including persons who received Company securities in exchange for their shares of Ocular in the January 2005 merger pursuant to which the Company acquired Ocular. In addition to the Company, Messrs. Bender, Weiss, and Fruth, the consolidated complaint names as defendants several of the Company's other current officers and directors and one former officer.

The consolidated complaint purports to allege violations of Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 by, among other things, contending that: (a) the Company improperly accounted for assets acquired in the Ocular merger by improperly allocating \$100 million of acquired customer relationships and manufacturing technology to goodwill (which is not amortized against earnings) instead of to intangible assets other than goodwill (which are amortized against earnings); (b) the Company's earnings guidance reflected the improper accounting for intangible assets and was inflated by (among other things) the amount of the understated amortization expense; (c) contrary to certain alleged statements, Ocular had flooded the trade channel with its older products as its Premier lenses were not being well received by customers; (d) the Company's aggressive revenue and growth targets for 2005 and beyond lacked any reasonable basis when made and did not reflect realistically achievable results primarily because of the absence of a two-week silicone hydrogel product; (e) the Company's internal controls were inadequate making it possible to misstate earnings by improperly accounting for the merger with Ocular and (f) sales force integration was not materializing and was fraught with dissension and acrimony.

On September 29, 2006, the Company and the individual defendants moved to dismiss the consolidated complaint. A hearing on the motion is currently scheduled for July 16, 2007. The Company intends to vigorously defend this matter.

On March 17, 2006, Eben Brice filed a purported shareholder derivative complaint in the United States District Court for the Central District of California, Case No. 8:06-CV-00300-CJC-RNB, against several current and former officers and directors of the Company. The Company is named as a nominal defendant. Following the filing of the first purported shareholder derivative lawsuit, three similar purported shareholder derivative suits were filed in the United States District Court for the Central District of California. All four actions have been consolidated under the heading In re Cooper Companies, Inc. Derivative Litigation, and the Court selected a lead plaintiff and lead counsel.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

On September 11, 2006, plaintiffs filed a consolidated amended complaint. The complaint purports to allege causes of action for breach of fiduciary duty, insider trading, breach of contract, and unjust enrichment, and largely repeats the allegations in the class action securities case, described above. The Company and the individual defendants have yet to respond to the consolidated amended complaint.

In addition to the derivative action pending in federal court, three similar purported shareholder actions were filed in the Superior Court for the State of California for the County of Alameda. These actions have been consolidated under the heading *In re Cooper Companies, Inc. Shareholder Derivative Litigation*, Case No. RG06260748. A consolidated amended complaint was filed on September 18, 2006.

On November 29, 2006, the Superior Court for the County of Alameda entered an order staying the action pending the resolution of the federal derivative action.

Both the state and federal derivative action are derivative in nature and do not seek damages from the Company.

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

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



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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

On December 29, 2004, Ocular filed a Petition for the United States Tax Court to redetermine the deficiencies asserted by the IRS. On April 24, 2007, the Company received notification from the United States Tax Court that final decisions have been entered in the case on April 18, 2007. As a result, the total deficiency was reduced to \$3.5 million, plus unspecified interest, with no penalties being assessed. The amount of the deficiency has largely been reserved in connection with the Ocular acquisition and will not have a material adverse effect on earnings. Because of the nature of the adjustments under the anti-deferral provisions of Subpart F, the decision has no precedential value on subsequent years of Ocular (2002-2005), which are currently under examination by the IRS.

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

On April 10, 2006, CooperVision filed a lawsuit against CIBA Vision (CIBA) in the United States District Court for the Eastern District of Texas alleging that CIBA is infringing United States Patent Nos. 6,431,706, 6,923,538, 6,467,903, 6,857,740 and 6,971,746 by, among other things, making, using, selling and offering to sell its O2Optix line of contact lenses. On June 5, 2006, CIBA filed an answer denying infringement and asserting certain affirmative defenses. The Court has set a trial date of January 8, 2008.

On April 11, 2006, CooperVision filed a lawsuit against CIBA in the United States District Court for the District of Delaware seeking a judicial declaration that CooperVision's *Biofinity* line of silicone hydrogel contact lenses does not infringe any valid and enforceable claims of United States Patent Nos. 5,760,100, 5,776,999, 5,789,461, 5,849,811, 5,965,631 and 6,951,894. On July 5, 2006, CIBA answered the complaint by denying the allegation that CooperVision's *Biofinity* line of silicone hydrogel contact lenses does not infringe any valid and enforceable claims of the foregoing patents. The answer also asks the Court for permission to interpose a counterclaim for infringement in the future if, after examination of the lenses, CIBA believes they infringe the foregoing patents, which counterclaim would seek both damages and injunctive relief. The Court has set a trial date of October 6, 2008.

On November 21, 2006, CooperVision filed a lawsuit against CIBA in the United States District Court for the Eastern District of Texas alleging that CIBA is infringing United States Patent Nos. 7,134,753 and 7,133,174 by, among other things, making, using, selling and offering to sell its O2Optix toric line of contact lenses. On December 11, 2006, CIBA filed an answer denying infringement and asserting certain affirmative defenses. The Court has set a trial date of January 8, 2008.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 14. Financial Information for Guarantor and Non-Guarantor Subsidiaries

On January 31, 2007, the Company issued \$350 million aggregate principal amount of 7.125% Senior Notes due 2015 (the Notes, see Note 6). The Notes are guaranteed by certain of our direct and indirect subsidiaries. The Notes are our general unsecured obligations; senior in right of payment to all of our existing and any future subordinated indebtedness; pari passu in right of payment with all of our existing and any future unsecured indebtedness that is not by its terms expressly subordinated to the Notes; effectively junior in right of payment to our existing and future secured indebtedness to the extent of the value of the collateral securing that indebtedness; unconditionally guaranteed by all of our existing and future domestic subsidiaries, other than any excluded domestic subsidiaries; and structurally subordinated to indebtedness of our subsidiaries that are not subsidiary guarantors.

Presented below are the Consolidating Condensed Statements of Operations for the three and six months ended April 30, 2007 and 2006, the Consolidating Condensed Balance Sheets as of April 30, 2007 and October 31, 2006 and the Consolidating Condensed Statements of Cash Flows for the six months ended April 30, 2007 and 2006 for The Cooper Companies, Inc. (Parent Company), the guarantor subsidiaries (Guarantor Subsidiaries) and the subsidiaries that are not guarantors (Non-Guarantor Subsidiaries):

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Consolidating Condensed Statements of Operations**

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(In<br>thousands) | Consolidating<br>Entries | Consolidated<br>Total |
|---|-------------------|---------------------------|--|--------------------------|-----------------------|
| <b><u>Three Months Ended April 30, 2007</u></b> |                   |                           |  |                          |                       |
| Net sales                                       | \$                | \$ 114,190                | \$ 132,459   | \$ (21,114)              | \$ 225,535            |
| Cost of sales                                   |                   | 49,329                    | 70,599   | (20,849)                 | 99,079                |
| Gross profit                                    |                   | 64,861                    | 61,860   | (265)                    | 126,456               |
| Operating expenses                              | 7,324             | 51,962                    | 56,964   | (325)                    | 115,925               |
| Operating income (loss)                         | (7,324)           | 12,899                    | 4,896  | 60                       | 10,531                |
| Interest expense                                | 10,918            |                           |  |                          | 10,918                |
| Other income (expense), net                     | 14,850            | (10,460)                  | (4,381)  |                          | 9                     |
| (Loss) income before income taxes               | (3,392)           | 2,439                     | 515  | 60                       | (378)                 |
| Provision for (benefit from) income taxes       | (2,278)           | 1,392                     | 1,035  |                          | 149                   |
| Net (loss) income                               | \$ (1,114)        | \$ 1,047                  | \$ (520)   | \$ 60                    | \$ (527)              |

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(In<br>thousands) | Consolidating<br>Entries | Consolidated<br>Total |
|---|-------------------|---------------------------|--|--------------------------|-----------------------|
| <b><u>Six Months Ended April 30, 2007</u></b> |                   |                           |  |                          |                       |
| Net sales                                     | \$                | \$ 221,838                | \$ 253,673   | \$ (30,556)              | \$ 444,955            |
| Cost of sales                                 |                   | 98,731                    | 119,929  | (30,073)                 | 188,587               |
| Gross profit                                  |                   | 123,107                   | 133,744  | (483)                    | 256,368               |
| Operating expenses                            | 17,440            | 102,813                   | 110,556  | (734)                    | 230,075               |
| Operating income (loss)                       | (17,440)          | 20,294                    | 23,188   | 251                      | 26,293                |
| Interest expense                              | 20,710            |                           |  |                          | 20,710                |
| Other income (expense), net                   | 25,154            | (15,882)                  | (8,444)  |                          | 828                   |
| Income (loss) before income taxes             | (12,996)          | 4,412                     | 14,744   | 251                      | 6,411                 |
| Provision for (benefit from) income taxes     | (6,318)           | 2,702                     | 5,206  |                          | 1,590                 |
| Net income (loss)                             | \$ (6,678)        | \$ 1,710                  | \$ 9,538   | \$ 251                   | \$ 4,821              |



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Consolidating Condensed Statements of Operations**

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(In<br>thousands) | Consolidating<br>Entries | Consolidated<br>Total |
|---|-------------------|---------------------------|--|--------------------------|-----------------------|
| <b><u>Three Months Ended April 30, 2006</u></b> |                   |                           |  |                          |                       |
| Net sales                                       | \$                | \$ 122,215                | \$ 140,864   | \$ (51,682)              | \$ 211,397            |
| Cost of sales                                   |                   | 59,469                    | 64,070   | (43,505)                 | 80,034                |
| Gross profit                                    |                   | 62,746                    | 76,794   | (8,177)                  | 131,363               |
| Operating expenses                              | 7,180             | 53,999                    | 46,414   | (710)                    | 106,883               |
| Operating income (loss)                         | (7,180)           | 8,747                     | 30,380   | (7,467)                  | 24,480                |
| Interest expense                                | 7,787             |                           |  |                          | 7,787                 |
| Other income (expense), net                     | 14,611            | (10,035)                  | (5,676)  |                          | (1,100)               |
| Income (loss) before income taxes               | (356)             | (1,288)                   | 24,704   | (7,467)                  | 15,593                |
| Provision for (benefit from) income taxes       | (1,013)           | 6,006                     | (3,101)  |                          | 1,892                 |
| Net income (loss)                               | \$ 657            | \$ (7,294)                | \$ 27,805  | \$ (7,467)               | \$ 13,701             |

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(In<br>thousands) | Consolidating<br>Entries | Consolidated<br>Total |
|---|-------------------|---------------------------|--|--------------------------|-----------------------|
| <b><u>Six Months Ended April 30, 2006</u></b> |                   |                           |  |                          |                       |
| Net sales                                     | \$                | \$ 236,571                | \$ 273,209   | \$ (92,644)              | \$ 417,136            |
| Cost of sales                                 |                   | 120,429                   | 122,184  | (86,001)                 | 156,612               |
| Gross profit                                  |                   | 116,142                   | 151,025  | (6,643)                  | 260,524               |
| Operating expenses                            | 15,770            | 96,910                    | 91,202   | (1,552)                  | 202,330               |
| Operating income (loss)                       | (15,770)          | 19,232                    | 59,823   | (5,091)                  | 58,194                |
| Interest expense                              | 20,300            |                           |  |                          | 20,300                |
| Other income (expense), net                   | 18,933            | (10,252)                  | (10,859)   |                          | (2,178)               |
| Income (loss) before income taxes             | (17,137)          | 8,980                     | 48,964   | (5,091)                  | 35,716                |
| Provision for (benefit from) income taxes     | (14,406)          | 18,090                    | 377  |                          | 4,061                 |
| Net income (loss)                             | \$ (2,731)        | \$ (9,110)                | \$ 48,587  | \$ (5,091)               | \$ 31,655             |



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Consolidating Condensed Balance Sheets**

|                                    | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(In thousands) | Consolidating<br>Entries | Consolidated<br>Total |
|------------------------------------|-------------------|---------------------------|---|--------------------------|-----------------------|
| <b>April 30, 2007</b>              |                   |                           |   |                          |                       |
| <b>ASSETS</b>                      |                   |                           |   |                          |                       |
| Current assets:                    |                   |                           |   |                          |                       |
| Cash and cash equivalents          | \$ 2,078          | \$ 1,394                  | \$ 8,561  | \$                       | \$ 12,033             |
| Trade receivables, net             |                   | 69,445                    | 87,327  |                          | 156,772               |
| Inventories, net                   |                   | 93,749                    | 227,379   | (59,516)                 | 261,612               |
| Deferred tax asset                 | 564               | 14,423                    | 3,716   |                          | 18,703                |
| Other current assets               | 2,825             | 15,159                    | 31,720  | (281)                    | 49,423                |
| <b>Total current assets</b>        | <b>5,467</b>      | <b>194,170</b>            | <b>358,703</b>                                  | <b>(59,797)</b>          | <b>498,543</b>        |
| Property, plant and equipment, net | 772               | 87,098                    | 468,233   |                          | 556,103               |
| Goodwill                           | 58                | 673,949                   | 586,482   |                          | 1,260,489             |
| Other intangibles, net             | 407               | 86,924                    | 60,162  |                          | 147,493               |
| Deferred tax asset                 | 61,788            | (40,509)                  | 2,133   |                          | 23,412                |
| Other assets                       | 1,488,957         | 1,944                     | 7,869   | (1,475,061)              | 23,709                |
|                                    | \$ 1,557,449      | \$ 1,003,576              | \$ 1,483,582                                    | \$ (1,534,858)           | \$ 2,509,749          |
| <b>LIABILITIES</b>                 |                   |                           |   |                          |                       |
| Current liabilities:               |                   |                           |   |                          |                       |
| Short-term debt                    | \$                | \$ 286                    | \$ 48,131                                       | \$                       | \$ 48,417             |
| Other current liabilities          | 43,251            | 52,601                    | 112,316   |                          | 208,168               |
| <b>Total current liabilities</b>   | <b>43,251</b>     | <b>52,887</b>             | <b>160,447</b>                                  |                          | <b>256,585</b>        |
| Long-term debt                     | 817,076           |                           | 370   |                          | 817,446               |
| Deferred tax liability             |                   | 1                         | 11,680  |                          | 11,681                |
| Intercompany and other liabilities | (332,980)         | (134,608)                 | 473,884   | 1                        | 6,297                 |
| <b>Total liabilities</b>           | <b>527,347</b>    | <b>(81,720)</b>           | <b>646,381</b>                                  | <b>1</b>                 | <b>1,092,009</b>      |
| Stockholders' equity               | 1,030,102         | 1,085,296                 | 837,201   | (1,534,859)              | 1,417,740             |
|                                    | \$ 1,557,449      | \$ 1,003,576              | \$ 1,483,582                                    | \$ (1,534,858)           | \$ 2,509,749          |

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Consolidating Condensed Balance Sheets**

|  | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(In thousands) | Consolidating<br>Entries | Consolidated<br>Total |
|--|-------------------|---------------------------|---|--------------------------|-----------------------|
| <b>October 31, 2006</b>                    |                   |                           |   |                          |                       |
| <b>ASSETS</b>                              |                   |                           |   |                          |                       |
| Current assets:                            |                   |                           |   |                          |                       |
| Cash and cash equivalents                  | \$ 401            | \$ (307)                  | \$ 8,130  | \$                       | \$ 8,224              |
| Trade receivables, net                     |                   | 66,149                    | 80,435  |                          | 146,584               |
| Inventories, net                           |                   | 107,814                   | 187,598   | (58,900)                 | 236,512               |
| Deferred tax asset                         | (240)             | 16,063                    | 3,836   |                          | 19,659                |
| Other current assets                       | 2,438             | 14,549                    | 29,827  | (842)                    | 45,972                |
| <b>Total current assets</b>                | <b>2,599</b>      | <b>204,268</b>            | <b>309,826</b>                                  | <b>(59,742)</b>          | <b>456,951</b>        |
| Property, plant and equipment, net         | 417               | 80,278                    | 415,662   |                          | 496,357               |
| Goodwill                                   |                   | 632,952                   | 584,132   |                          | 1,217,084             |
| Other intangibles, net                     | 407               | 84,048                    | 62,705  |                          | 147,160               |
| Deferred tax asset                         | 19,781            |                           | 1,698   |                          | 21,479                |
| Other assets                               | 1,482,633         | 4,250                     | 1,748   | (1,475,061)              | 13,570                |
|  | \$ 1,505,837      | \$ 1,005,796              | \$ 1,375,771                                    | \$ (1,534,803)           | \$ 2,352,601          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                   |                           |   |                          |                       |
| Current liabilities:                       |                   |                           |   |                          |                       |
| Short-term debt                            | \$ 37,500         | \$ 714                    | \$ 23,152                                       | \$                       | \$ 61,366             |
| Other current liabilities                  | 24,257            | 78,884                    | 112,123   |                          | 215,264               |
| <b>Total current liabilities</b>           | <b>61,757</b>     | <b>79,598</b>             | <b>135,275</b>                                  |                          | <b>276,630</b>        |
| Long-term debt                             | 680,404           | 500                       | 382   |                          | 681,286               |
| Deferred tax liability                     | (37,962)          | 37,962                    | 9,494   |                          | 9,494                 |
| Intercompany and other liabilities         | (238,113)         | (180,777)                 | 425,572   |                          | 6,682                 |
| <b>Total liabilities</b>                   | <b>466,086</b>    | <b>(62,717)</b>           | <b>570,723</b>                                  |                          | <b>974,092</b>        |
| Stockholders equity                        | 1,039,751         | 1,068,513                 | 805,048   | (1,534,803)              | 1,378,509             |
|  | \$ 1,505,837      | \$ 1,005,796              | \$ 1,375,771                                    | \$ (1,534,803)           | \$ 2,352,601          |



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Consolidating Condensed Statements of Cash Flows**

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(In thousands) | Consolidating<br>Entries | Consolidated<br>Total |
|---|-------------------|---------------------------|---|--------------------------|-----------------------|
| <u>Six Months Ended April 30, 2007</u>                        |                   |                           |   |                          |                       |
| Cash flows from operating activities:                         |                   |                           |   |                          |                       |
| Net cash provided by operating activities                     | \$ 5,182          | \$ 37,199                 | \$ 6,053  | \$                       | \$ 48,434             |
| Cash flows from investing activities:                         |                   |                           |   |                          |                       |
| Purchase of property, plant and equipment                     | (80)              | (12,110)                  | (77,900)  |                          | (90,090)              |
| Acquisitions of businesses, net of cash acquired              | (326)             | (67,086)                  | (1,381)   |                          | (68,793)              |
| Net cash used in investing activities                         | (406)             | (79,196)                  | (79,281)  |                          | (158,883)             |
| Cash flows from financing activities:                         |                   |                           |   |                          |                       |
| Net proceeds (repayments) of short-term debt                  |                   | (2,328)                   | 25,049  |                          | 22,721                |
| Intercompany proceeds (repayments)                            | (95,125)          | 46,806                    | 48,319  |                          |                       |
| Net proceeds (repayments) of long-term debt                   | 99,100            | (780)                     | (84)  |                          | 98,236                |
| Debt acquisition costs  | (11,226)          |                           |   |                          | (11,226)              |
| Dividends on common stock                                     | (1,337)           |                           |   |                          | (1,337)               |
| Excess tax benefit from share-based compensation arrangements | 176               |                           |   |                          | 176                   |
| Proceeds from exercise of stock options                       | 5,313             |                           |   |                          | 5,313                 |
| Net cash provided by (used in) financing activities           | (3,099)           | 43,698                    | 73,284  |                          | 113,883               |
| Effect of exchange rate changes on cash and cash equivalents  |                   |                           | 375   |                          | 375                   |
| Net increase in cash and cash equivalents                     | 1,677             | 1,701                     | 431   |                          | 3,809                 |
| Cash and cash equivalents at the beginning of the period      | 401               | (307)                     | 8,130   |                          | 8,224                 |
| Cash and cash equivalents at the end of the period            | \$ 2,078          | \$ 1,394                  | \$ 8,561  | \$                       | \$ 12,033             |

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Consolidating Condensed Statements of Cash Flows**

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(In thousands) | Consolidating<br>Entries | Consolidated<br>Total |
|---|-------------------|---------------------------|---|--------------------------|-----------------------|
| <u>Six Months Ended April 30, 2006</u>                        |                   |                           |   |                          |                       |
| Cash flows from operating activities:                         |                   |                           |   |                          |                       |
| Net cash provided by operating activities                     | \$ 25,372         | \$ 4,731                  | \$ 45,676                                       | \$ 585                   | \$ 76,364             |
| Cash flows from investing activities:                         |                   |                           |   |                          |                       |
| Purchase of property, plant and equipment                     | (231)             | (19,551)                  | (63,697)  |                          | (83,479)              |
| Acquisitions of businesses, net of cash acquired              | (2,279)           | (38,608)                  | (20,348)  |                          | (61,235)              |
| Net cash used in investing activities                         | (2,510)           | (58,159)                  | (84,045)  |                          | (144,714)             |
| Cash flows from financing activities:                         |                   |                           |   |                          |                       |
| Net proceeds (repayments) of short-term debt                  |                   | 1,513                     | 10,259  |                          | 11,772                |
| Intercompany proceeds (repayments)                            | (78,064)          | 53,230                    | 25,419  | (585)                    |                       |
| Net proceeds (repayments) of long-term debt                   | 40,250            | (150)                     | (50)  |                          | 40,050                |
| Debt acquisition costs  | (625)             |                           |   |                          | (625)                 |
| Dividends on common stock                                     | (1,335)           |                           |   |                          | (1,335)               |
| Excess tax benefit from share-based compensation arrangements | 1,510             |                           |   |                          | 1,510                 |
| Proceeds from exercise of stock options                       | 2,500             |                           |   |                          | 2,500                 |
| Net cash provided by (used in) financing activities           | (35,764)          | 54,593                    | 35,628  | (585)                    | 53,872                |
| Effect of exchange rate changes on cash and cash equivalents  |                   |                           | 207   |                          | 207                   |
| Net increase in cash and cash equivalents                     | (12,902)          | 1,165                     | (2,534)   |                          | (14,271)              |
| Cash and cash equivalents at the beginning of the period      | 13,262            | (813)                     | 18,377  |                          | 30,826                |
| Cash and cash equivalents at the end of the period            | \$ 360            | \$ 352                    | \$ 15,843                                       | \$                       | \$ 16,555             |

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Note 15. Business Segment Information**

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

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

Segment information:

|  | <b>Three Months Ended<br/>April 30,</b> |                  | <b>Six Months Ended<br/>April 30,</b> |                  |
|--|---|------------------|---------------------------------------|------------------|
|  | <b>2007</b>                             | <b>2006</b>      | <b>2007</b>                           | <b>2006</b>      |
|  | <b>(In thousands)</b>                   |                  |                                       |                  |
| <b>Net sales to external customers:</b>  |   |                  |                                       |                  |
| CVI                                      | \$ 188,159                              | \$ 181,668       | \$ 371,781                            | \$ 357,294       |
| CSI                                      | 37,376                                  | 29,729           | 73,174                                | 59,842           |
|  | \$ 225,535                              | \$ 211,397       | \$ 444,955                            | \$ 417,136       |
| <b>Operating income (loss):</b>          |   |                  |                                       |                  |
| CVI                                      | \$ 11,501                               | \$ 33,779        | \$ 35,535                             | \$ 70,806        |
| CSI                                      | 6,354                                   | (2,119)          | 8,198                                 | 3,158            |
| Corporate                                | (7,324)                                 | (7,180)          | (17,440)                              | (15,770)         |
| <b>Total operating income</b>            | <b>10,531</b>                           | <b>24,480</b>    | <b>26,293</b>                         | <b>58,194</b>    |
| Interest expense                         | 10,918                                  | 7,787            | 20,710                                | 20,300           |
| Other income (expense), net              | 9                                       | (1,100)          | 828                                   | (2,178)          |
| <b>(Loss) income before income taxes</b> | <b>\$ (378)</b>                         | <b>\$ 15,593</b> | <b>\$ 6,411</b>                       | <b>\$ 35,716</b> |

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Concluded

(Unaudited)

|                      | April 30,<br>2007   | October 31,<br>2006 |
|----------------------|---------------------|---------------------|
|                      | (In thousands)      |                     |
| Identifiable assets: |                     |                     |
| CVI                  | \$ 2,130,574        | \$ 2,049,557        |
| CSI                  | 312,711             | 248,382             |
| Corporate            | 66,464              | 54,662              |
| <b>Total</b>         | <b>\$ 2,509,749</b> | <b>\$ 2,352,601</b> |

Geographic information:

|   | Three Months Ended<br>April 30, |                   | Six Months Ended<br>April 30, |                   |
|---|---------------------------------|-------------------|-------------------------------|-------------------|
|   | 2007                            | 2006              | 2007                          | 2006              |
|   | (In thousands)                  |                   |                               |                   |
| Net sales to external customers by country of domicile: |                                 |                   |                               |                   |
| United States   | \$ 112,859                      | \$ 110,838        | \$ 218,559                    | \$ 212,339        |
| Europe  | 71,818                          | 62,602            | 141,500                       | 124,799           |
| Rest of world   | 40,858                          | 37,957            | 84,896                        | 79,998            |
| <b>Total</b>  | <b>\$ 225,535</b>               | <b>\$ 211,397</b> | <b>\$ 444,955</b>             | <b>\$ 417,136</b> |

|   | April 30,<br>2007 | October 31,<br>2006 |
|---|-------------------|---------------------|
|   | (In thousands)    |                     |
| Long-lived assets by country of domicile: |                   |                     |
| United States                             | \$ 234,002        | \$ 217,749          |
| Europe                                    | 314,035           | 270,789             |
| Rest of world                             | 8,066             | 7,819               |
| <b>Total</b>                              | <b>\$ 556,103</b> | <b>\$ 496,357</b>   |

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations

Note numbers refer to Notes to Consolidated Condensed Financial Statements in Item 1. Financial Statements.

**Forward-Looking Statements:** This Quarterly Report on Form 10-Q contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These include certain statements about the integration of the Ocular business, our capital resources, performance and results of operations. In addition, all statements regarding anticipated growth in our revenue, anticipated market conditions, planned product launches and results of operations are forward-looking. To identify these statements look for words like believes, expects, may, will, should, could, seeks, intends, plans, estimates or anticipates and similar words or phrases. Discussions of strategy, plans or intentions often contain forward-looking statements. Forward-looking statements necessarily depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. These include the risk that acquired businesses will not be integrated successfully into CVI and CSI, including the risk that the Company may not continue to realize anticipated benefits from its cost-cutting measures and inherent in accounting assumptions made regarding the acquisitions; the risks that CVI's new products will be delayed or not occur at all, or that sales will be limited following introduction due to manufacturing constraints or poor market acceptance; risks related to implementation of information technology systems covering the Company's businesses and any delays in such implementation or other events which could result in Management having to report a material weakness in the effectiveness of the Company's internal control over financial reporting in its 2007 Annual Report on Form 10-K; risks with respect to the ultimate validity and enforceability of the Company's patent applications and patents and the possible infringement of the intellectual property of others; and the impact of the Lone Star and Wallach acquisitions on CSI's and the Company's revenue, earnings and margins.

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

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations, Continued

impaired goodwill, changes in accounting principles or estimates and other events described in our Securities and Exchange Commission filings, including the Business and Risk Factors sections in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2006, as such Risk Factors may be updated in quarterly filings. We caution investors that forward-looking statements reflect our analysis only on their stated date. We disclaim any intent to update them except as required by law.

**Results of Operations**

In this section we discuss the results of our operations for the second fiscal quarter of 2007 and compare them with the same period of fiscal 2006. We discuss our cash flows and current financial condition under Capital Resources and Liquidity.

**Second Quarter Highlights:**

Sales of \$225.5 million, up 7%, 3% in constant currency.

Gross margin 56% of revenue including a \$6.2 million write off of manufacturing assets associated with Ocular integration activities.

Operating income down 57% to \$10.5 million.

Results include \$4.0 million of stock option expenses, \$7.3 million of production start up costs, \$16.7 million of other restructuring and integration costs including \$3.9 million of distribution rationalization costs and \$1.5 million of intellectual property and securities litigation costs.

Diluted loss per share at 1 cent, down from diluted earnings per share of 30 cents.

**Six-Month Highlights:**

Sales of \$445.0 million up 7%, 3% in constant currency.

Gross margin 58% of revenue.

Operating income of \$26.3 million.

Diluted earnings per share at 11 cents down from 69 cents.

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Results include \$11.2 million of stock option expense, \$3.4 million of litigation expenses related to intellectual property and securities litigation and acquisition and restructuring costs including \$12.6 million of production start up costs, \$7.5 million of distribution rationalization costs, and a \$4.2 million charge for acquired in-process research and development. Our results also include a \$0.9 million write-off of debt issuance costs.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Conditionand Results of Operations, Continued**Outlook**

We are in the process of developing and launching a number of new contact lens products that we believe will result in Cooper continuing to have a broad and competitive product line. New products planned for introduction over the next two years include lenses utilizing silicone hydrogel materials and new lens designs, including multifocal lenses. Contact lenses utilizing silicone hydrogel materials have grown significantly, and this material has become a major product material in the industry. The Company has launched one silicone hydrogel lens design with sales in Europe, Australia and a limited rollout in the United States. The Company is planning an expanded launch in the United States commencing in late June 2007. While initial customer reaction from this lens has been favorable, our future growth may be limited by several critical factors relating to silicone hydrogel materials. We face normal challenges associated with manufacturing a new material on a new manufacturing platform and are incurring additional manufacturing costs as we attempt to ramp up silicone hydrogel volumes and improve efficiencies. We are also engaged in litigation with regard to our silicone hydrogel product and certain lens design patents. We believe that our ability to succeed with silicone hydrogel products will be an important factor affecting future levels of sales growth and profitability.

Regarding capital resources, we believe that cash and cash equivalents on hand of \$12.0 million plus cash from operating activities and existing credit facilities will fund future operations, capital expenditures, cash dividends and smaller acquisitions. We expect capital expenditures in fiscal 2007 of approximately \$160 million, primarily to expand manufacturing capacity, consolidate distribution centers and for information technology.

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

|   | Percent of Sales   |      |             | Percent of Sales |      |             |
|---|--------------------|------|-------------|------------------|------|-------------|
|   | Three Months Ended |      |             | Six Months Ended |      |             |
|   | April 30,          |      |             | April 30,        |      |             |
|   | 2007               | 2006 | %<br>Growth | 2007             | 2006 | %<br>Growth |
| Net sales                                   | 100%               | 100% | 7%          | 100%             | 100% | 7%          |
| Cost of sales                               | 44%                | 38%  | 24%         | 42%              | 38%  | 20%         |
| Gross profit                                | 56%                | 62%  | (4)%        | 58%              | 62%  | (2)%        |
| Selling, general and administrative expense | 45%                | 42%  | 14%         | 45%              | 41%  | 15%         |
| Research and development expense            | 4%                 | 6%   | (43)%       | 4%               | 5%   | (4)%        |
| Restructuring costs                         |                    |      | 228%        | 1%               |      | 113%        |
| Amortization of intangibles                 | 2%                 | 2%   | 20%         | 2%               | 2%   | 8%          |
| Operating income                            | 5%                 | 12%  | (57)%       | 6%               | 14%  | (55)%       |



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Conditionand Results of Operations, Continued

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

CVI markets, develops and manufactures a broad range of contact lenses for the worldwide vision care market.

CSI markets, develops and manufactures medical devices, diagnostic products and surgical instruments and accessories used primarily by gynecologists and obstetricians.

Our consolidated net sales grew \$14.1 million or 7% in the three-month period and \$27.9 million or 7% in the six-month period:

|     | Three Months Ended |          |        | Six Months Ended |          |        |
|-----|--------------------|----------|--------|------------------|----------|--------|
|     | April 30,          |          |        | April 30,        |          |        |
|     | 2007               | 2006     | Growth | 2007             | 2006     | Growth |
|     | (\$ in millions)   |          |        |                  |          |        |
| CVI | \$ 188.1           | \$ 181.7 | 4%     | \$ 371.8         | \$ 357.3 | 4%     |
| CSI | 37.4               | 29.7     | 26%    | 73.2             | 59.8     | 22%    |
|     | \$ 225.5           | \$ 211.4 | 7%     | \$ 445.0         | \$ 417.1 | 7%     |

**CVI Net Sales by Market:**

| Geographic Segment | Three Months Ended |          |        | Six Months Ended |          |        |
|--------------------|--------------------|----------|--------|------------------|----------|--------|
|                    | April 30,          |          |        | April 30,        |          |        |
|                    | 2007               | 2006     | Growth | 2007             | 2006     | Growth |
|                    | (\$ in millions)   |          |        |                  |          |        |
| Americas           | \$ 86.8            | \$ 93.2  | (7)%   | \$ 168.2         | \$ 176.7 | (5)%   |
| Europe             | 72.4               | 63.9     | 13%    | 142.8            | 127.7    | 12%    |
| Asia Pacific       | 28.9               | 24.6     | 18%    | 60.8             | 52.9     | 15%    |
| Total              | \$ 188.1           | \$ 181.7 | 4%     | \$ 371.8         | \$ 357.3 | 4%     |

CVI's worldwide net sales grew 4% in both the three- and six-month periods, flat in constant currency. Americas sales declined 7% and 5% in the three- and six-month periods, the same in constant currency, primarily due to the continued market shift in favor of silicone hydrogel products. European sales grew 13% and 12% in the three- and six-month periods, 3% and 2% in constant currency, driven by significant increases in sales of disposable toric and disposable sphere products. Sales to the Asia Pacific region grew 18% and 15% in the three- and six-month periods, up 16% and 14% in constant currency, primarily due to significant sales growth of single-use and other sphere products.



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and Results of Operations, Continued

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

Conventional lenses replaced annually to disposable and frequently replaced lenses. Disposable lenses are designed for either daily, two-week or monthly replacement; frequently replaced lenses are designed for replacement after one to three months.

Commodity lenses to specialty lenses including toric, multifocal and cosmetic lenses.

Commodity spherical lenses to value-added spherical lenses such as continuous wear lenses and lenses to alleviate dry eye symptoms as well as lenses with aspherical optical properties or higher oxygen permeable lenses such as silicone hydrogels. Although these shifts generally favor CVI's core product lines of specialty lenses, phosphorylcholine (PC) Technology brand spherical lenses, silicone hydrogel spherical lenses and single-use spherical lenses, which now comprise 70% of CVI's worldwide business, it is important that CVI develop a range of silicone hydrogel products. CVI has launched one silicone hydrogel lens design with sales in Europe, Australia and a limited rollout in the United States and is in the process of expanding its manufacturing capacity to grow sales. CVI is planning an expanded launch in the United States in late June 2007.

Definitions: Contact lens revenue includes sales of conventional, disposable, long-term extended wear lenses and single-use spherical lenses, some of which are aspherically designed, and specialty lenses - toric lenses, cosmetic lenses and multifocal lenses.

Aspheric lenses correct for near- and farsightedness and have additional optical properties that help improve visual acuity in low light conditions and can correct low levels of astigmatism and low levels of presbyopia, an age-related vision defect.

Toric lens designs correct astigmatism by adding the additional optical properties of cylinder and axis, which correct for irregularities in the shape of the cornea.

Cosmetic lenses are opaque and color enhancing lenses that alter the natural appearance of the eye.

Multifocal lens designs correct presbyopia.

*Proclear* lenses, manufactured using proprietary phosphorylcholine (PC) technology, help enhance tissue/device compatibility and offer improved lens comfort.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

Net sales for the quarter grew 4% over the second quarter of fiscal 2006, with single-use spheres up 28%, at \$24.4 million, all disposable spheres up 5% and total spheres up 4%. Disposable toric sales grew 11%, disposable multifocal sales were up 20% and total toric sales grew 5%. CVI's line of specialty lenses grew 6% during the quarter. Cosmetic lenses declined 18%, and older conventional lens products declined 14%. *Proclear* products continued global market share gains as *Proclear* toric sales increased 46% to \$12.2 million, *Proclear* spheres, including *Biomedics XC*, increased 16% to \$25.0 million and *Proclear* multifocal lenses, including *Biomedics XC*, increased 46% to \$7.3 million.

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

**CSI Net Sales:** CSI's net sales increased 26% and 22% to \$37.4 million and \$73.2 million in the three- and six-month periods, respectively. CSI's organic sales grew about 9% over last year's second quarter. Women's healthcare products used primarily by obstetricians and gynecologists generate more than 90% of CSI's sales. The balance are sales of medical devices outside of women's healthcare which CSI does not actively market. CSI's acquisition during the period did not significantly affect Cooper's results of operations. While unit growth and product mix have influenced organic revenue growth, average realized prices by product have not materially influenced organic revenue growth.

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

|              | Margin             |      | Margin           |      |
|--------------|--------------------|------|------------------|------|
|              | Three Months Ended |      | Six Months Ended |      |
|              | April 30,          |      | April 30,        |      |
|              | 2007               | 2006 | 2007             | 2006 |
| CVI          | 55%                | 63%  | 57%              | 63%  |
| CSI          | 59%                | 59%  | 59%              | 58%  |
| Consolidated | 56%                | 62%  | 58%              | 62%  |

CVI's margin was 55% and 57% for the three-month and six-month periods of fiscal 2007 compared with 63% in both periods last year, as a result of manufacturing inefficiencies related to new products and integration activities, changing product mix and unfavorable foreign currency that flowed through cost of sales. The changing product mix included a shift to lower margin sphere products, including single-use spheres that represented 13.4% of lens sales in the current period compared to 11.2% in the first half of fiscal 2006. CVI's fiscal 2007 cost of sales include stock option expense, production start-up costs for our new silicone hydrogel products and the write off of manufacturing assets associated with Ocular integration activities. These costs amounted to \$14.5 million or 8% of sales in the three-month period, and \$20.7 million or 6% of sales in the six-month period. For 2006, cost of sales included stock option expense, restructuring costs, production start up costs for our new silicone hydrogel products and profits and losses associated with product lines being phased out, which were

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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about 1% of sales in both the three-month and six-month periods. Manufacturing inefficiencies associated with the ramp up of new products and plant realignment activities are expected to continue throughout the remainder of the year.

CSI's margin was 59% in both the three- and six-month periods ended April 30, 2007, compared with 59% and 58% for both of the same periods in fiscal year 2006. Gross margin reflects continuing efficiencies associated with recent acquisitions.

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

|              | Three Months Ended April 30, |             |         |             |                 | Six Months Ended April 30, |             |          |             |                 |
|--------------|------------------------------|-------------|---------|-------------|-----------------|----------------------------|-------------|----------|-------------|-----------------|
|              | 2007                         | % Net Sales | 2006    | % Net Sales | % Incr. (Decr.) | 2007                       | % Net Sales | 2006     | % Net Sales | % Incr. (Decr.) |
|              | (\$ in millions)             |             |         |             |                 |                            |             |          |             |                 |
| CVI          | \$ 80.0                      | 43%         | \$ 70.6 | 39%         | 13%             | \$ 153.9                   | 41%         | \$ 135.7 | 38%         | 13%             |
| CSI          | 13.6                         | 36%         | 10.8    | 37%         | 25%             | 27.1                       | 37%         | 21.5     | 36%         | 26%             |
| Headquarters | 7.3                          |             | 7.2     |             | 2%              | 17.5                       |             | 15.8     |             | 11%             |
|              | \$ 100.9                     | 45%         | \$ 88.6 | 42%         | 14%             | \$ 198.5                   | 45%         | \$ 173.0 | 41%         | 15%             |

In the second quarter of fiscal 2007, consolidated SGA increased 14%, and as a percentage of net sales increased to 45% from 42% in the prior year for the three-month period and increased to 45% from 41% for the six-month period. The increase in SGA is primarily due to integration costs, including the rationalization of distribution centers and production start up costs that relate to lenses for use in marketing programs increased to \$6.1 million from \$2.6 million in the second quarter of fiscal 2006 and intellectual property and securities litigation costs of \$1.5 million that increased from \$0.9 million in the prior period along with costs to support the increase in sales. We expect litigation expenses related to intellectual property matters and the securities litigation to continue to be significant in 2007. Corporate headquarters' expenses increased 2% to \$7.3 million and 11% to \$17.5 million in the three- and six-month periods of fiscal 2007. The corporate expenses include share-based compensation expense of \$1.3 million and \$6.0 million in the three- and six-month periods of 2007 compared to \$1.7 million and \$5.1 million in the three- and six-month periods of fiscal 2006.

**Research and Development Expense:** CVI's research and development expenditures were \$6.8 million up 22% and \$12.6 million up 17% for the three-month and six-month periods of 2007. CVI's research and development activities include programs to develop disposable silicone hydrogel products, product lines utilizing *PC Technology* and expansion of single-use product lines.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

CSI's research and development expenditures for the three-month and six-month periods of 2007 were \$1.1 million down 86% and 6.5 million down 28%. Before charges for acquired in-process research and development of \$4.2 million in the first quarter of fiscal 2007 and \$7.5 million in the second quarter of fiscal 2006, research and development expenses for the three-month and six-month periods of 2007 increased 37% and 51%, respectively. CSI's research and development activities include the upgrade and redesign of many CSI osteoporosis, in-vitro fertilization, incontinence and assisted reproductive technology products and other obstetrical and gynecological product development activities.

**Operating Income:** Operating income decreased by \$14 million or 57% and \$31.9 million or 55% for the three- and six-month periods, respectively:

|              | Three Months Ended April 30, |             |         |             |                 | Six Months Ended April 30, |             |         |             |                 |
|--------------|------------------------------|-------------|---------|-------------|-----------------|----------------------------|-------------|---------|-------------|-----------------|
|              | 2007                         | % Net Sales | 2006    | % Net Sales | % Incr. (Decr.) | 2007                       | % Net Sales | 2006    | % Net Sales | % Incr. (Decr.) |
|              | (\$ in millions)             |             |         |             |                 |                            |             |         |             |                 |
| CVI          | \$ 11.5                      | 6%          | \$ 33.8 | 19%         | (66)%           | \$ 35.5                    | 10%         | \$ 70.8 | 20%         | (50)%           |
| CSI          | 6.4                          | 17%         | (2.1)   | (7)%        |                 | 8.2                        | 11%         | 3.2     | 5%          | 160%            |
| Headquarters | (7.4)                        |             | (7.2)   |             | (2)%            | (17.4)                     |             | (15.8)  |             | (11)%           |
|              | \$ 10.5                      | 5%          | \$ 24.5 | 12%         | (57)%           | \$ 26.3                    | 6%          | \$ 58.2 | 14%         | (55)%           |

**Interest Expense:** Interest expense increased by \$3.1 million or 40% and increased by \$0.4 million or 2% in the three-month and six-month periods, respectively, primarily reflecting cash used for capital expenditures and CSI acquisitions. In the first half of 2007 and 2006, we wrote off debt issuance costs related to extinguished credit agreements of \$0.9 million and \$4.1 million, respectively.

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

|                              | Three Months Ended April 30, |          | Six Months Ended April 30, |          |
|------------------------------|------------------------------|----------|----------------------------|----------|
|                              | 2007                         | 2006     | 2007                       | 2006     |
|                              | (In millions)                |          |                            |          |
| Interest income              | \$ 0.1                       | \$ 0.1   | \$ 0.3                     | \$ 0.2   |
| Foreign exchange gain (loss) |                              | (0.9)    | 0.9                        | (1.7)    |
| Other                        | (0.1)                        | (0.3)    | (0.4)                      | (0.7)    |
|                              | \$ 0.0                       | \$ (1.1) | \$ 0.8                     | \$ (2.2) |

**Provision for Income Taxes:** We recorded tax expense of \$1.6 million in the first half of fiscal 2007 compared to \$4.1 million in the first half of fiscal 2006. The effective tax rate for the first half of fiscal 2007 (provision for taxes divided by income before taxes) was approximately 24.8 percent compared to approximately 11.4 percent for the first half of fiscal 2006.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Conditionand Results of Operations, Continued

**Share-Based Compensation Plans:** Compensation cost associated with share-based awards recognized in fiscal 2007 and fiscal 2006 includes: 1) amortization related to the remaining unvested portion of all stock option awards granted prior to November 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and 2) amortization related to all stock option awards granted on or subsequent to November 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The compensation and related income tax benefit recognized in the Company's consolidated financial statements for stock options and restricted stock awards were as follows:

|  | Three Months Ended |        | Six Months Ended |        |
|--|--------------------|--------|------------------|--------|
|  | April 30,          |        | April 30,        |        |
|  | 2007               | 2006   | 2007             | 2006   |
|  | (In millions)      |        |                  |        |
| Selling, general and administrative expenses | \$ 2.7             | \$ 3.1 | \$ 9.4           | \$ 7.9 |
| Cost of products sold                        | 0.3                | 0.1    | 0.6              | 0.1    |
| Research and development expense             | 0.2                | 0.1    | 0.4              | 0.2    |
| Restructuring costs                          | 0.8                |        | 0.8              |        |
| Capitalized in inventory                     | 0.5                | 0.3    | 1.0              | 0.6    |
| Total compensation expense                   | \$ 4.5             | \$ 3.6 | \$ 12.2          | \$ 8.8 |
| Related income tax benefit                   | \$ 1.0             | \$ 0.7 | \$ 3.1           | \$ 2.1 |

Cash received from options exercised under all share-based payment arrangements for the three and six months ended April 30, 2007, was \$3.8 million and \$5.3 million, respectively. Cash received from options exercised under all share-based payment arrangements for the three and six months ended April 30, 2006, was \$0.4 million and \$2.5 million, respectively.

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

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Conditionand Results of Operations, Continued**Capital Resources and Liquidity****Second Quarter Highlights:**

Operating cash flow \$47.7 million vs. \$47.1 million in the second quarter of fiscal 2006.

Cash payments for acquisitions totaled \$34.9 million vs. \$6.5 million in the second quarter of fiscal 2006.

Expenditures for purchases of property, plant and equipment (PP&E) \$40.0 million vs. \$41.3 million in the second quarter of 2006.

***Six-Month Highlights:***

Operating cash flow \$48.4 million vs. \$76.4 million in the first half of 2006.

Cash payments for acquisitions totaled \$68.8 million vs. \$61.2 million in the first half of 2006.

Expenditures for purchases of PP&E \$90.1 million vs. \$83.5 million in the first half of 2006.

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

|  | April 30, 2007 | October 31, 2006 |
|--|----------------|------------------|
| Cash and cash equivalents                    | \$ 12.0        | \$ 8.2           |
| Total assets                                 | \$ 2,509.7     | \$ 2,352.6       |
| Working capital                              | \$ 242.0       | \$ 180.3         |
| Total debt                                   | \$ 865.9       | \$ 742.7         |
| Stockholders' equity                         | \$ 1,417.7     | \$ 1,378.5       |
| Ratio of debt to equity                      | 0.61:1         | 0.54:1           |
| Debt as a percentage of total capitalization | 38%            | 35%              |
| Operating cash flow - twelve months ended    | \$ 122.6       | \$ 150.5         |

**Operating Cash Flow:** Cash flow provided by operating activities totaled \$48.4 million in the first half of fiscal 2007 and \$122.6 million over the twelve-month period ended April 30, 2007. In the first half of fiscal 2007, operating cash flow decreased as we have utilized cash to build inventory in support of new product launches, for costs associated with our Ocular integration plan and for the reduction of accounts payable.

Working capital increased \$61.6 million in the first half of fiscal 2007 due to increases of \$3.8 million in cash, \$10.2 million in receivables, \$25.1 million in inventory, \$3.5 million in prepaids and other assets and decreases of \$12.9 million in short-term debt and \$7.1 million in accrued liabilities and accounts payable. This activity was partially offset as current deferred tax assets and other decreased \$1.0 million. The significant increase in working capital is primarily due to the refinancing of Cooper's credit facility, which reduced the current portion of debt, along with building inventory in anticipation of new product launches and distribution center consolidations and increasing sales levels. In



addition, the acquisitions of Lone Star and Wallach increased net working capital and were funded with long-term debt.

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At the end of the first half of fiscal 2007, Cooper's inventory months on hand (MOH) remained consistent at 7.9 compared to 8.0 in last year's second quarter, as we continue to build inventory in support of new product launches and distribution center consolidations. Also, our days sales outstanding (DSO) decreased to 62 from 64 days in last year's second quarter. Based on our experience and knowledge of our customers and our analysis of inventoried products and product levels, we believe that our accounts receivable and inventories are recoverable.

**Investing Cash Flow:** The cash outflow of \$158.9 million from investing activities was driven by payments of \$68.8 million for acquisitions and capital expenditures of \$90.1 million, used primarily to expand manufacturing capacity, consolidate distribution centers and continue the rollout of new information systems.

**Financing Cash Flow:** The cash inflow of \$113.9 million from financing activities was driven by net proceeds from long-term debt of \$98.2 million, net proceeds from short-term debt of \$22.7 million and \$5.3 million from the exercise of stock options, partially offset by payment of debt acquisition costs of \$11.2 million and dividends on our common stock of \$1.3 million paid in the first half of 2007.

**Estimates and Critical Accounting Policies**

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

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

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**Allowance for doubtful accounts** Our reported balance of accounts receivable, net of the allowance for doubtful accounts, represents our estimate of the amount that ultimately will be realized in cash. We review the adequacy of our allowance for doubtful accounts on an ongoing basis, using historical payment trends and the age of the receivables and knowledge of our individual customers. When our analyses indicate, we increase or decrease our allowance accordingly. However, if the financial condition of our customers were to deteriorate, additional allowances may be required. While estimates are involved, bad debts historically have not been a significant factor given the diversity of our customer base, well established historical payment patterns and the fact that patients require satisfaction of healthcare needs in both strong and weak economies.

**Net realizable value of inventory** In assessing the value of inventories, we must make estimates and judgments regarding aging of inventories and other relevant issues potentially affecting the saleable condition of products and estimated prices at which those products will sell. On an ongoing basis, we review the carrying value of our inventory, measuring number of months on hand and other indications of salability, and reduce the value of inventory if there are indications that the carrying value is greater than market. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. While estimates are involved, historically, obsolescence has not been a significant factor due to long product dating and lengthy product life cycles. We target to keep, on average, about seven months of inventory on hand to maintain high customer service levels given the complexity of our specialty lens product portfolio.

**Valuation of goodwill** We account for goodwill and evaluate our goodwill balances and test them for impairment in accordance with the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142). The SFAS 142 goodwill impairment test is a two-step process. Initially, we compare the book value of net assets to the fair value of each reporting unit that has goodwill assigned to it. If the fair value of a reporting unit is determined to be less than the book value, a second step is performed to compute the amount of the impairment. When available and as appropriate, we use comparative market multiples to corroborate fair value results. A reporting unit is the level of reporting at which goodwill is tested for impairment.

Our reporting units are the same as our business segments CVI and CSI reflecting the way that we manage our business. We test goodwill for impairment annually during the third fiscal quarter and when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. We performed an impairment test in our third fiscal quarter 2006, and our analysis indicated that we had no impairment of goodwill. The valuation of each of our reporting units was determined using a combination of discounted cash flows, an income valuation approach and the guideline company method, a market valuation approach.

**Business combinations** We routinely consummate business combinations. We allocate the purchase price of acquisitions based on our estimates and judgments of the fair value of

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net assets purchased, acquisition costs incurred and intangibles other than goodwill. On individually significant acquisitions, we utilize independent valuation experts to provide a basis in order to refine the purchase price allocation, if appropriate. Results of operations for acquired companies are included in our consolidated results of operations from the date of acquisition.

**Income taxes** The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

As part of the process of preparing our consolidated financial statements, we must estimate our income tax expense for each of the jurisdictions in which we operate. This process requires significant management judgments and involves estimating our current tax exposures in each jurisdiction including the impact, if any, of additional taxes resulting from tax examinations as well as judging the recoverability of deferred tax assets. To the extent recovery of deferred tax assets is not likely based on our estimation of future taxable income in each jurisdiction, a valuation allowance is established. Tax exposures can involve complex issues and may require an extended period to resolve. Frequent changes in tax laws in each jurisdiction complicate future estimates. To determine the quarterly tax rate, we are required to estimate full-year income and the related income tax expense in each jurisdiction. We update the estimated effective tax rate for the effect of significant unusual items as they are identified. Changes in the geographic mix or estimated level of annual pre-tax income can affect the overall effective tax rate, and such changes could be material.

**Share-based compensation** Effective November 1, 2005, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R) as interpreted by SEC Staff Accounting Bulletin No. 107, using the modified prospective transition method. Periods prior to adoption have not been restated. See Note 10. Stock Plans in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006, for a further description of the impact of the adoption of SFAS 123R and the Company's share-based compensation plans.

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Under the fair value recognition provisions of SFAS 123R, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating Cooper's stock price volatility, employee stock option exercise behaviors and employee option forfeiture rates.

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

As share-based compensation expense recognized in the Consolidated Statement of Operations is based on awards ultimately expected to vest, the amount of expense has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience.

If factors change and the Company employs different assumptions in the application of SFAS 123R, the compensation expense that it records in future periods may differ significantly from what it has recorded in the current period.

**New Accounting Pronouncements**

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company's financial statements and the related financial statement disclosures. SAB 108 permits public companies to initially apply its provisions either by (i) restating prior financial statements or (ii) recording the cumulative effect as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of retained earnings. The Company is required to adopt SAB 108 by the end of fiscal 2007. The Company has not completed its analysis but does not expect adoption to have a significant impact on the Company's results of operations or financial condition.

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In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact SFAS 157 will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. This statement is effective for financial statements as of the end of fiscal years ending after December 15, 2006. The Company is currently evaluating the impact SFAS 158 will have on its consolidated financial statements.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 applies to all tax positions related to income taxes subject to Statement SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). Under FIN 48, a company would recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. FIN 48 clarifies how a company would measure the income tax benefits from the tax positions that are recognized, provides guidance as to the timing of the derecognition of previously recognized tax benefits and describes the methods for classifying and disclosing the liabilities within the financial statements for any unrecognized tax benefits. FIN 48 also addresses when a company should record interest and penalties related to tax positions and how the interest and penalties may be classified within the income statement and presented in the balance sheet. FIN 48 is effective for fiscal years beginning after December 15, 2006. For the Company, FIN 48 will be effective for our 2008 fiscal year. Differences between the amounts recognized prior to and after the adoption of FIN 48 would be accounted for as a cumulative effect adjustment to the beginning balance of retained earnings. The Company is currently evaluating FIN 48 and its possible impacts on the Company's financial statements. Upon adoption, there is a possibility that the cumulative effect would result in a charge or benefit to the beginning balance of retained earnings, increases or decreases in future effective tax rates, and/or increases in future effective tax rate volatility.

In February 2007, FASB Issued SFAS No. 159, *Establishing the Fair Value Option for Financial Assets and Liabilities* (SFAS 159). The Financial Accounting Standards Board has issued SFAS 159 to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS 159 applies to fiscal years beginning after November 15, 2007, or our 2009

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fiscal year, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS 157, *Fair Value Measurements*. An entity is prohibited from retrospectively applying SFAS 159, unless it chooses early adoption. SFAS 159 also applies to eligible items existing at November 15, 2007 (or early adoption date). The Company has not completed its analysis but does not expect the adoption of SFAS 159 to have a material effect on the Company's financial condition.

**Risk Management**

We are exposed to risks caused by changes in foreign exchange, principally our pound sterling and euro denominated debt and receivables, and from operations in foreign currencies. We have taken steps to minimize our balance sheet exposure. We are also exposed to risks associated with changes in interest rates, as the interest rate on our Revolver under our new credit facility varies with the London Interbank Offered Rate. The significant increase in debt following the acquisition of Ocular has significantly increased the risk associated with changes in interest rates. We have decreased this interest rate risk by hedging approximately \$250 million of variable rate debt effectively converting it to fixed rate debt for periods of up to one year.

**Credit Facility**

On January 31, 2007, Cooper refinanced its existing \$750 million syndicated bank credit facility, with a new \$650 million syndicated Senior Unsecured Revolving Line of Credit (Revolver) and \$350 million aggregate principal amount of 7.125% of Senior Notes, described below. The refinancing extended the maturity and provided additional borrowing flexibility along with lower overall pricing relative to the prior agreement. In addition, the Company has the ability from time to time to increase the size of the Revolver by up to an additional \$250 million. KeyBank led the Revolver refinancing, which resulted in a number of the banks retaining or increasing their participation in the agreement. The Revolver matures on January 31, 2012.

Interest rates for the Revolver are based on the London Interbank Offered Rate (LIBOR) plus additional basis points determined by certain ratios of debt to pro forma earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the credit agreement. These range from 75 to 150 basis points. As of April 30, 2007, the additional basis points were 125.

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The Revolver:

Requires that the ratio of Consolidated Pro Forma EBITDA to Consolidated Interest Expense (as defined, Interest Coverage Ratio ) be at least 3.0 to 1.0 at all times.

Requires that the ratio of Consolidated Funded Indebtedness to Consolidated Pro Forma EBITDA (as defined, Total Leverage Ratio ) be no higher than 4.00 to 1.00 from January 31, 2007 through October 31, 2009, and 3.75 to 1.00 thereafter.  
At April 30, 2007, the Company's Interest Coverage Ratio was 6.33 to 1.00 and the Total Leverage Ratio was 3.63 to 1.00.

The Company wrote off about \$0.9 million of debt issuance costs in interest expense as a result of extinguishing the term loan. The remaining \$1.7 million of existing debt issuance costs and the \$10.4 million of costs incurred to refinance the Revolver and Notes are carried in other assets and amortized to interest expense over the life of the credit facility.

**Senior Notes**

On January 31, 2007, the Company issued \$350 million aggregate principal amount of 7.125% Senior Notes (the Notes) due February 15, 2015. The Notes were offered in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. The Notes pay interest semi-annually on February 15 and August 15 of each year, beginning August 15, 2007. We may redeem some or all of the Notes at any time prior to February 15, 2011, at a price equal to 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest to the redemption date and a make-whole premium. We may redeem some or all of the Notes at any time on or after February 15, 2011, at the redemption prices (expressed as percentages of principal amounts) set forth below, plus accrued and unpaid interest to the redemption date and additional interest (if we fail to comply with certain obligations under the registration rights agreement that we entered in connection with the Notes (Additional Interest)), if any, on the Notes redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on February 15 of the years indicated below:

| <b>Year</b>         | <b>Percent</b> |
|---------------------|----------------|
| 2011                | 103.56%        |
| 2012                | 101.78%        |
| 2013 and thereafter | 100.00%        |

In addition, prior to February 15, 2010, we may redeem up to 35% of the Notes at a price equal to 107.13% of the principal amount of the Notes redeemed plus accrued and unpaid interest to the redemption date and Additional Interest, if any, on the Notes redeemed to the applicable redemption date, from the proceeds of certain equity offerings.



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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Net proceeds from the issuance totaled approximately \$342.6 million.

Under the indenture governing the Notes, our ability to incur indebtedness and pay distributions is subject to restrictions and the satisfaction of various conditions. In addition, the indenture imposes restrictions on certain other customary matters, such as limitations on certain investments, transactions with affiliates, the incurrence of liens, sale and leaseback transactions, certain asset sales and mergers.

The Notes are our senior unsecured obligations and rank equally with all of our existing and future senior unsecured obligations and senior to our subordinated indebtedness. The Notes are effectively subordinated to our existing and future secured indebtedness to the extent of the assets securing that indebtedness. On the issue date, certain of our direct and indirect subsidiaries entered into unconditional guarantees of the Notes that are unsecured. These guarantees rank equally with all existing and future unsecured senior obligations of the guarantors and are effectively subordinated to existing and future secured debt of the guarantors to the extent of the assets securing that indebtedness. The Notes are structurally subordinated to indebtedness and other liabilities, including payables, of our non-guarantor subsidiaries.

The changes to our contractual obligations and expected maturity dates, including the new Revolver and Notes are incorporated in the following tables:

## Payments Due by Fiscal Period

|                                     | 2007             | 2008 & 2009 | 2010 & 2011 | 2012 & Beyond |
|-------------------------------------|------------------|-------------|-------------|---------------|
|                                     | (\$ in millions) |             |             |               |
| Long-term debt                      | \$               | \$          | \$          | \$ 819.8      |
| Interest payments on long-term debt | 51.4             | 102.7       | 102.7       | 83.7          |
| Operating leases                    | 23.1             | 34.6        | 27.2        | 45.7          |
|                                     | \$ 74.5          | \$ 137.3    | \$ 129.9    | \$ 949.2      |

## Expected Maturity Date

| Fiscal Year            | 2007             | 2008 | 2009 | 2010 | 2011 | Thereafter | Total    | Fair Value |
|------------------------|------------------|------|------|------|------|------------|----------|------------|
|                        | (\$ in millions) |      |      |      |      |            |          |            |
| Long-term debt:        |                  |      |      |      |      |            |          |            |
| Fixed interest rate    | \$               | \$   | \$   | \$   | \$   | \$ 465.0   | \$ 465.0 | \$ 487.9   |
| Average interest rate  |                  |      |      |      |      | 6.0%       |          |            |
| Variable interest rate | \$               | \$   | \$   | \$   | \$   | \$ 354.8   | \$ 354.8 | \$ 354.8   |
| Average interest rate  | 4.1%             | 6.0% | 6.9% | 6.9% | 6.9% | 4.4%       |          |            |

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

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

**Item 4. Controls and Procedures**

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

In conjunction with the close of each fiscal quarter, the Company conducts a review and evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer, based upon their evaluation as of April 30, 2007, the end of the fiscal quarter covered in this report, concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

As of April 30, 2007, there has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

**Item 1. Legal Proceedings**

The Company is from time to time involved in various litigation and legal matters arising in the normal course of its business operations. By describing any particular matter, the Company does not intend to imply that it or its legal advisors have concluded or believe that the outcome of any of those particular matters is or is not likely to have a material adverse impact upon the Company's consolidated financial position, cash flows or results of operations.

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

On February 15, 2006, Alvin L. Levine filed a putative securities class action lawsuit in the United States District Court for the Central District of California, Case No. SACV-06-169 CJC, against the Company, A. Thomas Bender, its Chairman of the Board, President and Chief Executive Officer and a director, Robert S. Weiss, its Executive Vice President, Chief Operating Officer and a director, and John D. Fruth, a director. Two similar putative class action lawsuits were also filed in the United States District Court for the Central District of California, Case Nos. SACV-06-306 CJC and SACV-06-331 CJC. On May 19, 2006, the Court consolidated all three actions under the heading In re Cooper Companies, Inc. Securities Litigation and selected a lead plaintiff and lead counsel pursuant to the provisions of the Private Securities Litigation Reform Act of 1995, 15 U.S.C. § 78u-4.

The lead plaintiff filed a consolidated complaint on July 31, 2006. The consolidated complaint was filed on behalf of all purchasers of the Company's securities between July 28, 2004, and December 12, 2005, including persons who received Company securities in exchange for their shares of Ocular in the January 2005 merger pursuant to which the Company acquired Ocular. In addition to the Company, Messrs. Bender, Weiss, and Fruth, the consolidated complaint names as defendants several of the Company's other current officers and directors and one former officer.

The consolidated complaint purports to allege violations of Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 by, among other things, contending that: (a) the Company improperly accounted for assets acquired in the Ocular merger by improperly allocating \$100 million of acquired customer relationships and manufacturing technology to goodwill (which is not amortized against earnings) instead of to intangible assets other than goodwill (which are amortized against earnings); (b) the Company's earnings guidance reflected the improper accounting for intangible assets and was inflated by (among other things) the amount of the understated amortization expense; (c) contrary to certain alleged statements, Ocular had flooded the trade channel with its older products as its Premier lenses were not being well received by customers; (d) the Company's aggressive revenue and growth targets for 2005 and beyond lacked any reasonable basis when made and did not reflect realistically achievable results primarily because of the absence of a two-week silicone hydrogel product; (e) the Company's internal controls were inadequate making it possible to misstate earnings by improperly accounting for the merger with Ocular and (f) sales force integration was not materializing and was fraught with dissension and acrimony.

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On September 29, 2006, the Company and the individual defendants moved to dismiss the consolidated complaint. A hearing on the motion is currently scheduled for July 16, 2007. The Company intends to vigorously defend this matter.

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**In re Cooper Companies, Inc. Derivative Litigation**

On March 17, 2006, Eben Brice filed a purported shareholder derivative complaint in the United States District Court for the Central District of California, Case No. 8:06-CV-00300-CJC-RNB, against several current and former officers and directors of the Company. The Company is named as a nominal defendant. Following the filing of the first purported shareholder derivative lawsuit, three similar purported shareholder derivative suits were filed in the United States District Court for the Central District of California. All four actions have been consolidated under the heading In re Cooper Companies, Inc. Derivative Litigation, and the Court selected a lead plaintiff and lead counsel.

On September 11, 2006, plaintiffs filed a consolidated amended complaint. The complaint purports to allege causes of action for breach of fiduciary duty, insider trading, breach of contract, and unjust enrichment, and largely repeats the allegations in the class action securities case, described above. The Company and the individual defendants have yet to respond to the consolidated amended complaint.

In addition to the derivative action pending in federal court, three similar purported shareholder actions were filed in the Superior Court for the State of California for the County of Alameda. These actions have been consolidated under the heading In re Cooper Companies, Inc. Shareholder Derivative Litigation, Case No. RG06260748. A consolidated amended complaint was filed on September 18, 2006.

On November 29, 2006, the Superior Court for the County of Alameda entered an order staying the action pending the resolution of the federal derivative action.

Both the state and federal derivative action are derivative in nature and do not seek damages from the Company.

**Bausch & Lomb Incorporated Litigation**

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

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### **United States Tax Court Litigation**

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

On December 29, 2004, Ocular filed a Petition for the United States Tax Court to redetermine the deficiencies asserted by the IRS. On April 24, 2007, the Company received notification from the United States Tax Court that final decisions have been entered in the case on April 18, 2007. As a result, the total deficiency was reduced to \$3.5 million, plus unspecified interest, with no penalties being assessed. The amount of the deficiency has largely been reserved in connection with the Ocular acquisition and will not have a material adverse effect on earnings. Because of the nature of the adjustments under the anti-deferral provisions of Subpart F, the decision has no precedential value on subsequent years of Ocular (2002-2005), which are currently under examination by the IRS.

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

### **CIBA Vision Litigation**

On April 10, 2006, CVI filed a lawsuit against CIBA Vision (CIBA) in the United States District Court for the Eastern District of Texas alleging that CIBA is infringing United States Patent Nos. 6,431,706, 6,923,538, 6,467,903, 6,857,740 and 6,971,746 by, among other things, making, using, selling and offering to sell its O2Optix line of contact lenses. On June 5, 2006, CIBA filed an answer denying infringement and asserting certain affirmative defenses. The Court has set a trial date of January 8, 2008.

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On April 11, 2006, CVI filed a lawsuit against CIBA in the United States District Court for the District of Delaware seeking a judicial declaration that CVI's *Biofinity* line of silicone hydrogel contact lenses does not infringe any valid and enforceable claims of United States Patent Nos. 5,760,100, 5,776,999, 5,789,461, 5,849,811, 5,965,631 and 6,951,894. On July 5, 2006, CIBA answered the complaint by denying the allegation that CVI's *Biofinity* line of silicone hydrogel contact lenses does not infringe any valid and enforceable claims of the foregoing patents. The answer also asks the Court for permission to interpose a counterclaim for infringement in the future if, after examination of the lenses, CIBA believes they infringe the foregoing patents, which counterclaim would seek both damages and injunctive relief. The Court has set a trial date of October 6, 2008.

On November 21, 2006, CVI filed a lawsuit against CIBA in the United States District Court for the Eastern District of Texas alleging that CIBA is infringing United States Patent Nos. 7,134,753 and 7,133,174 by, among other things, making, using, selling and offering to sell its O2Optix toric line of contact lenses. On December 11, 2006, CIBA filed an answer denying infringement and asserting certain affirmative defenses. The Court has set a trial date of January 8, 2008.

### Item 1A. Risk Factors

Our business faces significant risks. These risks include those described below and may include additional risks and uncertainties not presently known to us or that we currently deem immaterial. Our business, financial condition and results of operations could be materially adversely affected by any of these risks, and the trading prices of our common stock or convertible debentures could decline. The risk factors set forth below supplement or modify the Risk Factors in our Annual Report on Form 10-K for fiscal year ended October 31, 2006, to reflect changes since that filing. These risks should be read in conjunction with the other information in this report, the 2006 Annual Report on Form 10-K and the January 31, 2007, Quarterly Report on Form 10-Q.

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

**If we do not retain our key personnel and attract and retain other highly skilled employees, our business could suffer.**

If we fail to recruit and retain the necessary personnel, our business and our ability to obtain new customers, develop new products and provide acceptable levels of customer service could suffer. The success of our business is heavily dependent on the leadership of our key management personnel. Our success also depends on our ability to recruit, retain and motivate highly skilled sales, marketing and engineering personnel. Competition for these persons in our industry is intense, and we may not be able to successfully recruit, train or retain qualified personnel.



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On April 3, 2007, we announced that our current chief executive officer, A. Thomas Bender, had expressed his desire to relinquish his role as chief executive officer by the end of 2007. Our Board of Directors has been engaged in a succession planning process and is considering both internal and external candidates for chief executive officer in its search process. Though we hope to appoint a qualified candidate in the near term, no assurance can be given that we will be able to retain a suitable chief executive officer. If we are unsuccessful in replacing Mr. Bender with an individual with the required level of experience and expertise in a timely manner, our operations and business strategy could be materially and adversely affected. Additionally, this change in our management may be disruptive to our business, and, during the transition period, there may be uncertainty among investors, vendors, customers, rating agencies, employees and others concerning our future direction and performance.

**We face risks arising from the restructuring of our CVI operations.**

We have undertaken initiatives to restructure CVI's business operations by reorganizing certain of CVI's reporting chains and centralizing certain management functions to our corporate headquarters in Pleasanton. While the restructuring is intended to have long-term benefits for us, in the shorter term we may experience management distractions, reduced employee productivity, operational disruptions and other difficulties as a result of the implementation of the restructuring, which in turn may affect our revenue in the future. We may also experience delays or greater than expected costs in implementing our restructuring program, and our efforts may fail to achieve the desired improvements in the management of our operations.

**Concerns with the safety of certain contact lens solutions resulting in the voluntary recall of such products may adversely affect the contact lens industry in general.**

On May 15, 2006, Bausch & Lomb announced a worldwide voluntary recall of ReNu with MoistureLoc following a governmental investigation into an increase in fungal infections among contact lens wearers in the United States and certain Asian markets. On May 25, 2007, Advanced Medical Optics announced a worldwide voluntary recall of Complete@MoisturePlus based on CDC data linking the product to an increased risk of acanthamoeba keratitis, a rare, but serious, infection of the cornea. While our contact lens products have not been associated with either of these recalls, these recalls and others, or similar safety issues, may damage consumer confidence in the safety of contact lens usage which may negatively impact the growth of the contact lens market in general or cause consumers to try alternative vision correcting technologies. An overall slowdown in the growth of the worldwide contact lens market could adversely affect our ability to continue to increase revenues thereby having a material adverse impact on our business, financial condition and results of operations.

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

The 2007 Annual Meeting of Stockholders was held on March 20, 2007.

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

| <b>Director</b>           | <b>Votes For</b> | <b>Votes Withheld</b> |
|---------------------------|------------------|-----------------------|
| A. Thomas Bender          | 37,401,103       | 2,662,134             |
| John D. Fruth             | 37,868,935       | 2,194,302             |
| Michael H. Kalkstein      | 35,585,786       | 4,477,451             |
| Jody S. Lindell           | 39,958,963       | 104,294               |
| Moses Marx                | 37,598,410       | 2,464,827             |
| Donald Press              | 35,573,406       | 4,490,831             |
| Steven Rosenberg          | 37,620,297       | 2,442,940             |
| Allan E. Rubenstein, M.D. | 35,585,326       | 4,477,911             |
| Robert S. Weiss           | 37,579,280       | 2,483,957             |
| Stanley Zinberg, M.D.     | 39,958,325       | 104,912               |

Stockholders ratified the appointment of KPMG LLP as Cooper's independent certified public accountant for the fiscal year ending October 31, 2007. A total of 37,561,962 shares were voted in favor of the ratification, 2,486,643 shares were voted against it and 14,634 shares abstained.

Stockholders also approved the adoption of the 2007 Long-Term Incentive Plan. A total of 27,541,266 shares were voted in favor of the adoption, 8,294,225 shares were voted against it and 40,991 shares abstained.

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**Item 6. Exhibits**

(a) Exhibits.

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 10.1                      | The Cooper Companies, Inc. 2007 Incentive Payment Plan, as incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on February 21, 2007.   |
| 10.2                      | The Cooper Companies, Inc. 2007 Special Discretionary Bonus Plan, as incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on February 21, 2007.   |
| 10.3                      | The 2007 Long-Term Incentive Plan of The Cooper Companies, Inc., as incorporated by reference to Exhibit B to the Company's Proxy Statement for the 2007 Annual Meeting of Stockholders filed on February 6, 2007.                       |
| 10.4                      | Amendment #1 to the 2007 Long-Term Incentive Plan of The Cooper Companies, Inc, as incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on March 6, 2007.   |
| 10.5                      | Amendment #1 to the 2006 Long-Term Incentive Plan for Non-Employee Directors of The Cooper Companies, Inc, as incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on March 6, 2007.              |
| 10.6                      | Employment and Separation Agreement by and between The Cooper Companies, Inc., CooperVision, Inc. and Gregory A. Fryling, as incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 8, 2007. |
| 11*                       | Calculation of Earnings Per Share  |
| 31.1                      | Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934   |
| 31.2                      | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934  |
| 32.1                      | Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350   |
| 32.2                      | Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350   |

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

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SIGNATURE

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

Date: June 8, 2007

The Cooper Companies, Inc.  
(Registrant)

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

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Index of Exhibits

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