

COOPER COMPANIES INC  
Form 10-Q  
June 03, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For Quarterly Period Ended April 30, 2011

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

Commission File Number 1-8597

**The Cooper Companies, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware** **94-2657368**  
(State or other jurisdiction of **(I.R.S. Employer**  
incorporation or organization) **Identification No.)**  
**6140 Stoneridge Mall Road, Suite 590, Pleasanton, CA 94588**  
**(Address of principal executive offices) (Zip Code)**  
**Registrant's telephone number, including area code (925) 460-3600**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes  No

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

|                                        |                                                    |
|----------------------------------------|----------------------------------------------------|
| Common Stock, \$.10 par value<br>Class | 46,932,942 Shares<br>Outstanding at April 30, 2011 |
|----------------------------------------|----------------------------------------------------|

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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 Income

| Periods Ended April 30,                              | Three Months |            | Six Months |            |
|------------------------------------------------------|--------------|------------|------------|------------|
| (In thousands, except for earnings per share)        | 2011         | 2010       | 2011       | 2010       |
| <b>(Unaudited)</b>                                   |              |            |            |            |
| Net sales                                            | \$ 325,301   | \$ 289,271 | \$ 618,530 | \$ 549,530 |
| Cost of sales                                        | 123,539      | 125,778    | 240,162    | 236,274    |
| Gross profit                                         | 201,762      | 163,493    | 378,368    | 313,256    |
| Selling, general and administrative expense          | 126,382      | 111,340    | 239,835    | 211,918    |
| Research and development expense                     | 10,390       | 8,573      | 20,117     | 16,200     |
| Restructuring costs                                  | 0            | 47         | 0          | 410        |
| Gain on settlement of preexisting relationship       | 0            | 0          | 6,080      | 0          |
| Amortization of intangibles                          | 4,734        | 4,499      | 9,447      | 8,716      |
| Operating income                                     | 60,256       | 39,034     | 115,049    | 76,012     |
| Interest expense                                     | 4,268        | 9,730      | 11,219     | 19,955     |
| Loss on extinguishment of debt                       | 16,487       | 0          | 16,487     | 0          |
| Litigation settlement charge                         | 0            | 27,000     | 0          | 27,000     |
| Other income (expense), net                          | 219          | 168        | (514)      | (2,159)    |
| Income before income taxes                           | 39,720       | 2,472      | 86,829     | 26,898     |
| Provision for (benefit from) income taxes            | 4,360        | (1,984)    | 6,174      | 2,020      |
| Net income                                           | \$ 35,360    | \$ 4,456   | \$ 80,655  | \$ 24,878  |
| Basic earnings per share                             | \$ 0.76      | \$ 0.10    | \$ 1.74    | \$ 0.55    |
| Diluted earnings per share                           | \$ 0.73      | \$ 0.10    | \$ 1.69    | \$ 0.54    |
| Number of shares used to compute earnings per share: |              |            |            |            |
| Basic                                                | 46,506       | 45,481     | 46,242     | 45,386     |
| Diluted                                              | 48,239       | 46,367     | 47,807     | 46,197     |

See accompanying notes.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

**Consolidated Condensed Balance Sheet**

(In thousands)

| (Unaudited)                                                                                                                    | April 30,<br>2011 | October 31,<br>2010 |
|--------------------------------------------------------------------------------------------------------------------------------|-------------------|---------------------|
| <b>ASSETS</b>                                                                                                                  |                   |                     |
| Current assets:                                                                                                                |                   |                     |
| Cash and cash equivalents                                                                                                      | \$ 8,430          | \$ 3,573            |
| Trade accounts receivable, net of allowance for doubtful accounts of \$4,875 at April 30, 2011 and \$4,238 at October 31, 2010 | 203,764           | 197,490             |
| Inventories                                                                                                                    | 249,382           | 227,902             |
| Deferred tax assets                                                                                                            | 28,989            | 28,828              |
| Prepaid expense and other current assets                                                                                       | 47,870            | 33,547              |
| Total current assets                                                                                                           | 538,435           | 491,340             |
| Property, plant and equipment, at cost                                                                                         | 944,405           | 919,268             |
| Less: accumulated depreciation and amortization                                                                                | 338,400           | 325,381             |
|                                                                                                                                | 606,005           | 593,887             |
| Goodwill                                                                                                                       | 1,277,904         | 1,261,976           |
| Other intangibles, net                                                                                                         | 127,949           | 114,177             |
| Deferred tax assets                                                                                                            | 29,730            | 23,072              |
| Other assets                                                                                                                   | 45,169            | 40,566              |
|                                                                                                                                | \$ 2,625,192      | \$ 2,525,018        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                                                                     |                   |                     |
| Current liabilities:                                                                                                           |                   |                     |
| Short-term debt                                                                                                                | \$ 29,097         | \$ 19,159           |
| Accounts payable                                                                                                               | 51,641            | 51,792              |
| Employee compensation and benefits                                                                                             | 36,503            | 44,821              |
| Accrued income taxes                                                                                                           | 9,426             | 4,494               |
| Other current liabilities                                                                                                      | 79,483            | 79,254              |
| Total current liabilities                                                                                                      | 206,150           | 199,520             |
| Long-term debt                                                                                                                 | 524,118           | 591,977             |
| Deferred tax liabilities                                                                                                       | 20,958            | 20,202              |
| Accrued pension liability and other                                                                                            | 63,640            | 46,543              |
| Total liabilities                                                                                                              | 814,866           | 858,242             |
| Commitments and contingencies (see Note 13)                                                                                    |                   |                     |
| Stockholders equity:                                                                                                           |                   |                     |
| Preferred stock, 10 cents par value, shares authorized: 1,000; zero shares issued or outstanding                               | 0                 | 0                   |
| Common stock, 10 cents par value, shares authorized: 70,000; issued 47,112 at April 30, 2011 and 46,140 at October 31, 2010    | 4,711             | 4,614               |
| Additional paid-in capital                                                                                                     | 1,126,491         | 1,083,779           |

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|                                                                                         |              |              |
|-----------------------------------------------------------------------------------------|--------------|--------------|
| Accumulated other comprehensive income (loss)                                           | 2,075        | (17,334)     |
| Retained earnings                                                                       | 679,793      | 600,522      |
| Treasury stock at cost: 179 shares at April 30, 2011 and 313 shares at October 31, 2010 | (2,744)      | (4,805)      |
| Stockholders' equity                                                                    | 1,810,326    | 1,666,776    |
|                                                                                         | \$ 2,625,192 | \$ 2,525,018 |

See accompanying notes.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

**Consolidated Condensed Statements of Cash Flows****Six Months Ended April 30,****(In thousands)**

| <b>(Unaudited)</b>                                            | <b>2011</b>     | <b>2010</b>     |
|---------------------------------------------------------------|-----------------|-----------------|
| Cash flows from operating activities:                         |                 |                 |
| Net income                                                    | \$ 80,655       | \$ 24,878       |
| Depreciation and amortization                                 | 46,405          | 46,897          |
| Gain on settlement of preexisting relationship                | (6,080)         | 0               |
| Loss on extinguishment of debt                                | 16,487          | 0               |
| Accrued litigation settlement                                 | 0               | 27,000          |
| (Decrease) increase in operating capital                      | (14,911)        | 20,500          |
| Other non-cash items                                          | 15,266          | 8,485           |
| <b>Net cash provided by operating activities</b>              | <b>137,822</b>  | <b>127,760</b>  |
| Cash flows from investing activities:                         |                 |                 |
| Purchases of property, plant and equipment                    | (52,016)        | (24,119)        |
| Acquisitions of businesses, net of cash acquired, and other   | (36,599)        | (30,971)        |
| <b>Net cash used in investing activities</b>                  | <b>(88,615)</b> | <b>(55,090)</b> |
| Cash flows from financing activities:                         |                 |                 |
| Net (repayments) proceeds of short-term debt                  | (2,562)         | 6,516           |
| Repayments of long-term debt                                  | (1,104,905)     | (353,210)       |
| Proceeds from long-term debt                                  | 1,037,465       | 278,168         |
| Dividends on common stock                                     | (1,385)         | (1,362)         |
| Debt acquisition costs                                        | (9,524)         | 0               |
| Excess tax benefit from share-based compensation arrangements | 0               | 407             |
| Issuance of common stock for employee stock plans             | 36,165          | 2,707           |
| <b>Net cash used in financing activities</b>                  | <b>(44,746)</b> | <b>(66,774)</b> |
| Effect of exchange rate changes on cash and cash equivalents  | 396             | 1               |
| <b>Net increase in cash and cash equivalents</b>              | <b>4,857</b>    | <b>5,897</b>    |
| Cash and cash equivalents - beginning of period               | 3,573           | 3,932           |
| <b>Cash and cash equivalents - end of period</b>              | <b>\$ 8,430</b> | <b>\$ 9,829</b> |

See accompanying notes.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income (Loss)

| Periods Ended April 30,                               | Three Months |             | Six Months |            |
|-------------------------------------------------------|--------------|-------------|------------|------------|
| (In thousands)                                        | 2011         | 2010        | 2011       | 2010       |
| <b>(Unaudited)</b>                                    |              |             |            |            |
| Net income                                            | \$ 35,360    | \$ 4,456    | \$ 80,655  | \$ 24,878  |
| Other comprehensive income (loss):                    |              |             |            |            |
| Foreign currency translation adjustment               | 21,617       | (18,504)    | 21,790     | (35,554)   |
| Change in value of derivative instruments, net of tax | (2,538)      | 842         | (2,396)    | 6,773      |
| Additional minimum pension liability, net of tax      | 7            | 0           | 15         | 0          |
| Other comprehensive income (loss)                     | 19,086       | (17,662)    | 19,409     | (28,781)   |
| Comprehensive income (loss)                           | \$ 54,446    | \$ (13,206) | \$ 100,064 | \$ (3,903) |

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, we or the Company) is a global medical device company publicly traded on the NYSE Euronext (NYSE:COO). Cooper is dedicated to serving the needs of the healthcare professional, improving the quality of life for its employees and customers and providing competitive products. Cooper operates through two business units, CooperVision and CooperSurgical.

CooperVision develops, manufactures and markets a broad range of contact lenses for the worldwide vision correction market. Dedicated to enhancing the contact lens experience for practitioners and patients, CooperVision specializes in lenses for astigmatism, presbyopia and ocular dryness.

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

The unaudited consolidated condensed financial statements presented in this report contain all adjustments necessary to present fairly Cooper's consolidated condensed financial position at April 30, 2011 and October 31, 2010, the consolidated results of its operations for the three and six months ended April 30, 2011 and 2010 and its consolidated condensed cash flows for the six months ended April 30, 2011 and 2010. Most of these adjustments are normal and recurring. However, certain adjustments associated with acquisitions and the related financial arrangements are of a nonrecurring nature. Readers should not assume that the results reported here either indicate or guarantee future performance.

During interim periods, we follow the accounting policies described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010. Please refer to this when reviewing this Quarterly Report on Form 10-Q.

Management estimates and judgments are an integral part of financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). We believe that the critical accounting policies listed below 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. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results are:

Revenue recognition

Allowance for doubtful accounts

Net realizable value of inventory

Valuation of goodwill

Business combinations

Income taxes

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

During the fiscal first half of 2011, there were no significant changes in our estimates and critical accounting policies. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended October 31, 2010, for a more complete discussion of our estimates and critical accounting policies.

Note 2. Acquisition and Restructuring Costs

**2009 CooperVision Manufacturing Restructuring Plan**

In the fiscal third quarter of 2009, CooperVision initiated a restructuring plan to relocate contact lens manufacturing from Norfolk, Virginia, and transfer part of its contact lens manufacturing from Adelaide, Australia, to existing manufacturing operations in Juana Diaz, Puerto Rico, and Hamble, UK (2009 CooperVision Manufacturing restructuring plan). This plan is intended to better utilize CooperVision's manufacturing efficiencies and reduce its manufacturing expenses through a reduction in workforce of approximately 480 employees.

CooperVision completed restructuring activities in Adelaide in our fiscal third quarter of 2010 and in Norfolk in our fiscal first quarter of 2011.

The total restructuring costs under this plan were approximately \$23.1 million, with \$15.4 million associated with assets, including accelerated depreciation and facility lease and contract termination costs, and \$7.7 million associated with employee benefit costs, including severance payments, termination benefit costs, retention bonus payouts and other similar costs. These costs were reported as cost of sales or restructuring costs in our Consolidated Statements of Income.

No restructuring costs were recorded in the current quarter, and in the fiscal first half of 2011, \$1.9 million, including \$0.8 million of employee benefit costs and \$1.1 million of costs associated with assets, primarily non-cash, were reported in cost of sales. In the year ended October 31, 2010, \$16.1 million, including \$3.3 million of employee benefit costs and \$12.8 million of costs associated with assets, primarily non-cash, were reported as \$16.0 million in cost of sales and \$0.1 million in restructuring costs. In the year ended October 31, 2009, \$5.1 million including \$3.6 million of employee benefit costs and \$1.5 million of non-cash costs associated with assets were reported as \$5.0 million in cost of sales and \$0.1 million in restructuring costs.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

| (In millions)                                | Balance at<br>Beginning<br>of<br>Period | Additions<br>Charged to<br>Costs of Sales<br>and<br>Restructuring<br>Costs | Payments<br>and<br>Adjustments | Balance<br>at End<br>of Period |
|----------------------------------------------|-----------------------------------------|----------------------------------------------------------------------------|--------------------------------|--------------------------------|
| <b>Year Ended October 31, 2009</b>           |                                         |                                                                            |                                |                                |
| Other current liabilities                    | \$ 0                                    | \$ 3.6                                                                     | \$ 0.6                         | \$ 3.0                         |
| Accelerated depreciation and other           | 0                                       | 1.5                                                                        | 1.2                            | 0.3                            |
|                                              | \$ 0                                    | \$ 5.1                                                                     | \$ 1.8                         | \$ 3.3                         |
| <b>Year Ended October 31, 2010</b>           |                                         |                                                                            |                                |                                |
| Other current liabilities                    | \$ 3.0                                  | \$ 4.4                                                                     | \$ 4.9                         | \$ 2.5                         |
| Accelerated depreciation and other           | 0.3                                     | 11.7                                                                       | 10.2                           | 1.8                            |
|                                              | \$ 3.3                                  | \$ 16.1                                                                    | \$ 15.1                        | \$ 4.3                         |
| <b>Fiscal Quarter Ended January 31, 2011</b> |                                         |                                                                            |                                |                                |
| Other current liabilities                    | \$ 2.5                                  | \$ 0.9                                                                     | \$ 3.2                         | \$ 0.2                         |
| Accelerated depreciation and other           | 1.8                                     | 1.0                                                                        | 1.5                            | 1.3                            |
|                                              | \$ 4.3                                  | \$ 1.9                                                                     | \$ 4.7                         | \$ 1.5                         |
| <b>Fiscal Quarter Ended April 30, 2011</b>   |                                         |                                                                            |                                |                                |
| Other current liabilities                    | \$ 0.2                                  | \$ 0.0                                                                     | \$ 0.0                         | \$ 0.2                         |
| Accelerated depreciation and other           | 1.3                                     | 0.0                                                                        | 0.3                            | 1.0                            |
|                                              | \$ 1.5                                  | \$ 0.0                                                                     | \$ 0.3                         | \$ 1.2                         |

The Company may, from time to time, decide to pursue additional restructuring activities that involve charges in future periods.

Note 3. Inventories

| (In thousands)  | April 30, 2011 | October 31, 2010 |
|-----------------|----------------|------------------|
| Raw materials   | \$ 56,668      | \$ 47,411        |
| Work-in-process | 9,093          | 8,937            |
| Finished goods  | 183,621        | 171,554          |
|                 | \$ 249,382     | \$ 227,902       |

Inventories are stated at the lower of 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 4. Intangible Assets**Goodwill**

| (In thousands)                                                 | CooperVision | CooperSurgical | Total        |
|----------------------------------------------------------------|--------------|----------------|--------------|
| Balance as of October 31, 2009                                 | \$ 1,049,270 | \$ 207,759     | \$ 1,257,029 |
| Net additions during the year ended October 31, 2010           | 0            | 10,102         | 10,102       |
| Translation                                                    | (4,998)      | (157)          | (5,155)      |
| Balance as of October 31, 2010                                 | 1,044,272    | 217,704        | 1,261,976    |
| Net additions during the six-month period ended April 30, 2011 | 5,415        | 3,122          | 8,537        |
| Translation                                                    | 7,328        | 63             | 7,391        |
| Balance as of April 30, 2011                                   | \$ 1,057,015 | \$ 220,889     | \$ 1,277,904 |

The Company performed its annual impairment test during the fiscal third quarter of 2010, and our analysis indicated that we had no impairment of goodwill. As described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010, we will continue to monitor conditions and changes that could indicate that our recorded goodwill may be impaired.

**Other Intangible Assets**

| (In thousands)                                | As of April 30, 2011  |                                        | As of October 31, 2010 |                                        |
|-----------------------------------------------|-----------------------|----------------------------------------|------------------------|----------------------------------------|
|                                               | Gross Carrying Amount | Accumulated Amortization & Translation | Gross Carrying Amount  | Accumulated Amortization & Translation |
| Trademarks                                    | \$ 3,115              | \$ 1,294                               | \$ 3,022               | \$ 1,195                               |
| Technology                                    | 111,379               | 57,814                                 | 105,527                | 52,954                                 |
| Shelf space and market share                  | 97,083                | 41,937                                 | 88,803                 | 37,953                                 |
| License and distribution rights and other     | 24,596                | 7,179                                  | 15,701                 | 6,774                                  |
|                                               | 236,173               | \$ 108,224                             | 213,053                | \$ 98,876                              |
| Less accumulated amortization and translation | 108,224               |                                        | 98,876                 |                                        |
| Other intangible assets, net                  | \$ 127,949            |                                        | \$ 114,177             |                                        |

We estimate that amortization expense will average \$19.8 million per year in the three-year period ending October 31, 2013, and average \$13.6 million in the two succeeding years ending October 31, 2015.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 5. Debt

| (In thousands)                        | April 30, 2011 | October 31, 2010 |
|---------------------------------------|----------------|------------------|
| <b>Short-term:</b>                    |                |                  |
| Overdraft and other credit facilities | \$ 16,597      | \$ 19,159        |
| Current portion of long-term debt     | 12,500         | 0                |
|                                       | \$ 29,097      | \$ 19,159        |
| <b>Long-term:</b>                     |                |                  |
| Credit agreement                      | \$ 523,875     | \$ 252,750       |
| Senior notes                          | 0              | 339,000          |
| Other                                 | 243            | 227              |
|                                       | \$ 524,118     | \$ 591,977       |

**Credit Agreement:** On January 12, 2011, Cooper refinanced its existing \$650.0 million syndicated Senior Unsecured Revolving Line of Credit (Revolver) with a new Credit Agreement that provides for a multicurrency revolving credit facility in an aggregate principal amount of \$750.0 million and a delayed draw term loan facility in an aggregate principal amount of \$250.0 million, each of which, unless terminated earlier, mature on January 12, 2016. In addition, the Company has the ability from time to time to increase the size of the revolving credit facility by up to an additional \$250.0 million. KeyBank led the refinancing with certain banks that participated in the Revolver retaining or increasing their participation in the Credit Agreement.

Amounts outstanding under the new Credit Agreement bear interest, at the Company's option, at either the base rate, which is a rate per annum equal to the greatest of (a) KeyBank's prime rate, (b) one-half of one percent in excess of the federal funds effective rate and (c) one percent in excess of the adjusted LIBOR rate for a one-month interest period on such day, or the LIBOR or adjusted foreign currency rate, plus, in each case, an applicable margin in respect of base rate loans and in respect of LIBOR or adjusted foreign currency rate loans. The applicable margins are determined quarterly based upon the Company's ratio of consolidated funded indebtedness to consolidated proforma EBITDA, as defined in the Credit Agreement.

The Company pays an annual commitment fee that ranges from 0.15% to 0.50% of the unused portion of the revolving credit facility depending on our ratio of consolidated funded indebtedness to consolidated proforma EBITDA, as defined in the Credit Agreement. In addition to this annual commitment fee, the Company is also required to pay certain letter of credit and related fronting fees and other administrative fees pursuant to the terms of the Credit Agreement.

The Company's new credit facility is not secured by any of its, or any of its subsidiaries', assets. All obligations under the new credit facility will be guaranteed by each of the Company's existing and future direct and indirect material domestic subsidiaries.

The term loan facility will amortize in equal quarterly installments as follows, with the remainder due on the term loan maturity date: 5% of the aggregate principal amount of the term loan for the first three years following the closing date and 10% of the aggregate principal amount of the term loan for the fourth and fifth years following the closing date.





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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Pursuant to the terms of the Credit Agreement, the Company is also required to maintain specified financial ratios:

The ratio of Consolidated Proforma EBITDA to Consolidated Interest Expense (as defined, Interest Coverage Ratio) be at least 3.00 to 1.00 at all times.

The ratio of Consolidated Funded Indebtedness to Consolidated Proforma EBITDA (as defined, Total Leverage Ratio) be no higher than 3.75 to 1.00.

At April 30, 2011, the Company's Interest Coverage Ratio was 12.33 to 1.00 and the Total Leverage Ratio was 1.61 to 1.00.

The Company wrote off about \$0.3 million of debt issuance costs in interest expense as a result of extinguishing the Revolver. The remaining \$0.5 million of existing debt issuance costs and the \$9.5 million of costs incurred to refinance the Credit Agreement are carried in other assets and amortized to interest expense over the life of the Credit Agreement.

At April 30, 2011, we had \$460.4 million available under the Credit Agreement.

**Senior Notes:** On January 31, 2007, the Company issued \$350.0 million aggregate principal amount of 7.125% Senior Notes (the Notes) due February 15, 2015, of which none were outstanding at the end of our fiscal second quarter of 2011. The Notes paid interest semi-annually on February 15 and August 15 of each year, beginning August 15, 2007. The Notes were offered in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933.

On January 12, 2011, we provided formal notice, and on February 15, 2011, we redeemed all \$339.0 million aggregate principal amount outstanding of the Notes in accordance with the terms of the Indenture among the Company, the guarantors party thereto and HSBC Bank USA, National Association, as trustee, pursuant to which the Notes were issued. In accordance with the Indenture, the redemption price for the Notes was 103.563% of their principal amount plus accrued and unpaid interest to February 15, 2011, the redemption date. Due to the redemption of all outstanding Notes, we no longer disclose financial information for guarantor and non-guarantor subsidiaries.

In our fiscal second quarter of 2011, we recorded a \$16.5 million loss on the repurchase that includes the write-off of about \$4.4 million of unamortized costs and the redemption premium of \$12.1 million related to the Notes on our Consolidated Statement of Income. The Company paid the aggregate purchase price from borrowings under the new Credit Agreement, including \$250.0 million from the term loan facility.

**Note 6. Income Taxes**

Cooper's effective tax rate (ETR) (provision for income taxes divided by pretax income) for the fiscal first half of 2011 was 7.1%. Our year-to-date results include the projected fiscal year ETR, plus any discrete items. The ETR used to record the provision for income taxes for the fiscal first half of 2010 was 7.5%. The decrease in the fiscal 2011 ETR reflects the shift in the geographic mix of income.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

The Company adopted the provisions of ASC 740-10-25-5 through 25-17, *Basic Recognition Threshold*, formerly FIN 48, on November 1, 2007. Under this guidance, the Company recognizes 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. As of November 1, 2010, the Company had total gross unrecognized tax benefits of \$19.7 million. If recognized, \$18.8 million of unrecognized tax benefits would impact the Company's ETR. For the six-month period ended April 30, 2011, there were no material changes to the total amount of unrecognized tax benefits.

Interest and penalties of \$1.1 million have been reflected as a component of the total liability as of November 1, 2010. It is the Company's policy to recognize the items of interest and penalties directly related to income taxes as additional income tax expense.

Included in the balance of unrecognized tax benefits at November 1, 2010, is \$3.4 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. This amount represents a decrease in unrecognized tax benefits related to expiring statutes in various jurisdictions worldwide and is comprised of transfer pricing and other items.

As of April 30, 2011, the tax years for which the Company remains subject to United States Federal income tax assessment upon examination are 2005 through 2010. The Company remains subject to income tax examinations in other major tax jurisdictions including the United Kingdom, France and Australia for the tax years 2006 through 2010.

On April 1, 2011, the Internal Revenue Service (IRS) issued a Notice of Deficiency to the Company in connection with its audit of the Company's income tax returns for the years 2005 and 2006. The Notice asserts that the Company is subject to additional taxes due to a proposed adjustment under the anti-deferral provisions of Subpart F of the Internal Revenue Code. If sustained, such taxes should be offset by the Company's existing federal net operating loss carryforwards leaving a \$1.2 million balance of proposed taxes owed. The Company intends to defend its positions taken in its income tax returns vigorously. However, if the IRS's contentions were sustained, the Company's existing federal net operating loss carryforwards could be materially reduced, which could result in a material adverse effect on the Company's future net income.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 7. Earnings Per Share

| Periods Ended April 30,<br>(In thousands, except per share amounts) | Three Months |          | Six Months |           |
|---------------------------------------------------------------------|--------------|----------|------------|-----------|
|                                                                     | 2011         | 2010     | 2011       | 2010      |
| Net income                                                          | \$ 35,360    | \$ 4,456 | \$ 80,655  | \$ 24,878 |
| <u>Basic:</u>                                                       |              |          |            |           |
| Weighted average common shares                                      | 46,506       | 45,481   | 46,242     | 45,386    |
| Basic earnings per common share                                     | \$ 0.76      | \$ 0.10  | \$ 1.74    | \$ 0.55   |
| <u>Diluted:</u>                                                     |              |          |            |           |
| Weighted average common shares                                      | 46,506       | 45,481   | 46,242     | 45,386    |
| Effect of dilutive stock options                                    | 1,733        | 886      | 1,565      | 811       |
| Diluted weighted average common shares                              | 48,239       | 46,367   | 47,807     | 46,197    |
| Diluted earnings per common share                                   | \$ 0.73      | \$ 0.10  | \$ 1.69    | \$ 0.54   |

The following table sets forth stock options to purchase Cooper's common stock that were not included in the diluted net income per share calculation because their effect would have been antidilutive for the periods presented:

| Periods Ended April 30,<br>(In thousands, except exercise prices) | Three Months     |                  | Six Months       |                  |
|-------------------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                                   | 2011             | 2010             | 2011             | 2010             |
| Numbers of stock option shares excluded                           | 1,232            | 3,571            | 1,255            | 3,576            |
| Range of exercise prices                                          | \$ 67.65-\$80.51 | \$ 41.44-\$80.51 | \$ 62.60-\$80.51 | \$ 37.90-\$80.51 |

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Note 8. Share-Based Compensation Plans**

The Company has several share-based compensation plans that are described in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2010. The compensation expense and related income tax benefit recognized in the Company's consolidated financial statements for share-based awards were as follows:

| Periods Ended April 30,<br>(In millions)    | Three Months  |               | Six Months    |               |
|---------------------------------------------|---------------|---------------|---------------|---------------|
|                                             | 2011          | 2010          | 2011          | 2010          |
| Selling, general and administrative expense | \$ 3.2        | \$ 1.7        | \$ 7.9        | \$ 4.3        |
| Cost of sales                               | 0.2           | 0.2           | 0.5           | 0.4           |
| Research and development expense            | 0.2           | 0.1           | 0.3           | 0.2           |
| Capitalized in inventory                    | 0.2           | 0.2           | 0.5           | 0.4           |
| <b>Total compensation expense</b>           | <b>\$ 3.8</b> | <b>\$ 2.2</b> | <b>\$ 9.2</b> | <b>\$ 5.3</b> |
| Related income tax benefit                  | \$ 1.1        | \$ 0.6        | \$ 2.8        | \$ 1.6        |

**Note 9. Cash Dividends**

We paid a semiannual dividend of approximately \$1.4 million or 3 cents per share on February 7, 2011, to stockholders of record on January 19, 2011.

**Note 10. Derivative Instruments**

We operate multiple foreign subsidiaries that manufacture and/or sell our products worldwide. As a result, our earnings, cash flow 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, to the extent reasonable and practical, transaction, remeasurement and specified economic exposures with derivatives instruments such as foreign exchange forward contracts and cross currency swaps. The gains and losses on these derivatives are intended to at least partially offset the transaction gains and losses recognized in earnings. We do not enter into derivatives for speculative purposes. Under ASC 815, *Derivatives and Hedging*, all derivatives are recorded on the balance sheet at fair value. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting.

Through the normal course of its business activities, the Company recognizes that it is exposed to foreign exchange risks. Our primary objective is to protect the United States dollar value of future cash flows and minimize the volatility of reported earnings while strictly adhering to accounting principles generally accepted in the United States. To meet this objective, business exposures to foreign exchange risks must be identified, measured and minimized using the most effective and efficient methods to eliminate, reduce or transfer such exposures.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Exposures are reduced whenever possible by taking advantage of offsetting payable and receivable balances and netting net sales against expenses, also referred to as natural hedges. We may employ the use of foreign currency derivative instruments to manage a portion of the remaining foreign exchange risk. While we designate our exposures under ASC 815 on a gross basis, foreign currency derivatives may be used to protect against an exposure value resulting from forecasted non-functional currency denominated net sales and expenses. Our risk management objectives and the strategies for achieving those objectives depend on the type of exposure being hedged.

The Company is also exposed to risks associated with changes in interest rates, as the interest rate on our Credit Agreement varies. To mitigate this risk, we may hedge portions of our variable rate debt by swapping those portions to fixed rates.

We only enter into derivative financial instruments with institutions with which we have an International Swap Dealers Association (ISDA) agreement in place. Our derivative financial instruments do not contain credit risk related contingent features such as call features or requirements for posting collateral. Although the Company and its counterparties have some right of set-off, all foreign exchange derivatives are displayed gross in the fair value tabular disclosure and accounted for as such in our Consolidated Condensed Balance Sheet. We adjust our foreign exchange forward contracts and cross currency swaps for credit risk on a per derivative basis. However, when applicable, we record interest rate derivatives as net on our Consolidated Condensed Balance Sheet, in accordance with ASC 815-10, but gross in the fair value tabular disclosure. When we net or set-off our interest rate derivative obligations, only the net asset or liability position will be credit affected. For the fiscal first half ended April 30, 2011, and for the fiscal year ending October 31, 2010, all of our interest rate derivatives were in a liability position and, therefore, were not set-off in the Consolidated Condensed Balance Sheet. Since ISDA agreements are signed between the Company and each respective financial institution, netting is permitted on a per institution basis only. On an ongoing basis, the Company monitors counterparty credit ratings. We consider our credit nonperformance risk to be minimal because we award and disperse derivatives business between multiple commercial institutions that have at least an investment grade credit rating.

**Cash Flow Hedging**

The Company is exposed to the effects of foreign exchange movements. From time to time, we may choose to manage enterprise risk by locking in all or a portion of the anticipated cash flows that are linked to accounting exposures such as nonfunctional currency intercompany payables/receivables, through derivative instruments. To execute this strategy, we may hedge the specific identified foreign exchange risk exposure, thereby locking in the rate at which these forecasted transactions will be recorded and ultimately reduce earnings volatility related to the enterprise risk.

Cash flow hedge accounting allows for the gains or losses on the change in fair value of the derivatives related to forecasted transactions to be recorded in Other Comprehensive Income (Loss) (OCI) until the underlying forecasted transaction occurs. However, this accounting treatment is limited to hedging specific transactions that can be clearly defined and specifically create risk to functional currency cash flow.

All sales and expenses with unrelated third parties not denominated in USD subject the Company to economic risk. We typically designate and document qualifying foreign exchange forward contracts related to certain forecasted intercompany sales and purchases associated with third party transactions as cash flow hedges.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

To manage foreign currency exposure related to forecasted foreign currency denominated sales and purchases of product, the Company may enter into foreign currency forward contracts. Typical currencies traded are those which represent the largest risk for the Company, including but not limited to the British pound sterling, euro and Japanese yen.

The effective portion of cash flow hedge contracts' gains or losses resulting from changes in fair value of hedges is initially reported as a component of accumulated OCI in stockholders' equity until the underlying hedged item is reflected in our Consolidated Statements of Income, at which time the effective amount in OCI is reclassified to either net sales or cost of sales in our Consolidated Statements of Income. As of April 30, 2011, there were no cash flow hedges outstanding and all related gains and losses were reclassified to our Consolidated Statement of Income.

We calculate hedge effectiveness prospectively and retrospectively, excluding time value, on a monthly basis using regression as well as other timing and probability criteria required by ASC 815. We record any ineffectiveness and any excluded components of the hedge immediately to other income or expense in our Consolidated Statement of Income. In the event the underlying forecasted transaction does not occur within the designated hedge period, or it becomes probable that the forecasted transaction will not occur, the related gains and losses on the cash flow hedges are immediately reclassified from OCI to other income or expense in our Consolidated Statement of Income. In fiscal 2011, no ineffectiveness was recorded.

**Balance Sheet Hedges**

We may manage the foreign currency risk associated with nonfunctional currency assets and liabilities using foreign exchange forward contracts with maturities of less than 24 months and cross currency swaps with maturities up to 36 months. As of April 30, 2011, all outstanding balance sheet hedging derivatives had maturities of less than 12 months. The change in fair value of these derivatives is recognized in other income or expense.

Monthly adjustments to the cash flow hedging program explained above require non-designated hedges to be placed when cash flow hedges are utilized faster or earlier than planned. This occurs regularly, and hedge amounts tend to be less than \$5.0 million dollars per affected relationship.

Other common exposures hedged are intercompany payables and receivables between entities. Such obligations are generally short-term in nature, often outstanding for less than 90 days. These types of exposures are hedged monthly and are typically less than \$10.0 million per hedge.

These derivative instruments do not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset gains and losses on the non-functional currency assets and liabilities being hedged.

**Interest Rate Swaps**

The Company may enter into floating-to-fixed interest rate swaps to fix the floating rate debt under our Credit Agreement. These interest rate swaps hedge variable interest payments by exchanging variable rate interest risk for a fixed interest rate. On May 3, 2007, the Company entered into four floating-to-fixed interest rate swaps. These interest rate swaps with notional values totaling \$250.0 million, served to fix the floating rate debt for terms between 30 and 48 months with fixed rates between 4.94% to 4.96%. As of April 30, 2011, the outstanding swap notional value totaled \$50.0 million with maturity less than 1 month and fixed rate of 4.94%.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

On March 10, 2011, the Company entered into five floating-to-fixed interest rate swaps. These interest rate swaps with notional values totaling \$200.0 million, serve to fix the floating rate debt for terms between 33 and 45 months with fixed rates between 1.27% and 1.78%.

We qualified and designated these aforementioned swaps under ASC 815 as cash flow hedges and recorded the offset of the cumulative fair market value (net of tax effect) to accumulated OCI in our Consolidated Condensed Balance Sheet.

Effectiveness testing of the hedge relationship and measurement to quantify ineffectiveness is performed at a minimum each fiscal quarter using the hypothetical derivative method. The outstanding swaps have been and are expected to remain highly effective for the life of the swap. Effective amounts are reclassified to interest expense as the related hedged expense is incurred. The fair value of the outstanding swap is recorded in our Consolidated Condensed Balance Sheet and presented in the table below. Excluded from this table are liabilities of \$0.8 million and \$1.3 million that were recorded and attributable to accrued interest as of April 30, 2011 and October 31, 2010, respectively. We expect to reclassify \$2.4 million from OCI to interest expense in our Consolidated Statements of Income over the next 12 months.

**Fair Value Hedging**

From time to time, we designate and document foreign exchange forward contracts related to firm commitments for third party royalty payments as fair value hedges. In accordance with policy, these derivatives are employed to eliminate, reduce or transfer selected foreign currency risks that meet the ASC 815 definition of a firm commitment. Fair value hedges are evaluated for effectiveness at a minimum each fiscal quarter and any ineffectiveness is recorded in other income and expense in our Consolidated Statements of Income. The critical terms of the forward contract and the firm commitments are matched at inception and subsequent prospective forward contract effectiveness is measured by comparing the cumulative change in the fair value of the forward contract to the cumulative change in value of the specified firm commitment, including time value. The derivative fair values are recorded in our Consolidated Condensed Balance Sheet and recognized currently in earnings; this is offset by the effective gains and losses on the change in value of the firm commitment which is recorded in accrued liabilities in our Consolidated Condensed Balance Sheet. In fiscal 2011 and 2010, the Company did not designate any derivatives as fair value hedges. We had no outstanding fair value hedges subsequent to February 29, 2008.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

The fair value of derivative instruments in our Consolidated Condensed Balance Sheet as of April 30, 2011 and October 31, 2010 was as follows:

| (In millions)                                                         | Derivative Assets                        |                            |                             | Derivative Liabilities              |                            |                             |
|-----------------------------------------------------------------------|------------------------------------------|----------------------------|-----------------------------|-------------------------------------|----------------------------|-----------------------------|
|                                                                       | Balance                                  |                            |                             | Balance                             |                            |                             |
|                                                                       | Sheet<br>Location                        | Fair<br>Value<br>4/30/2011 | Fair<br>Value<br>10/31/2010 | Sheet<br>Location                   | Fair<br>Value<br>4/30/2011 | Fair<br>Value<br>10/31/2010 |
| Derivatives designated as hedging instruments under ASC 815           |                                          |                            |                             |                                     |                            |                             |
| Interest rate contracts                                               | Prepaid expense and other current assets | \$ 0                       | \$ 0                        | Other current liabilities           | \$ 0.1                     | \$ 1.3                      |
| Interest rate contracts                                               | Other assets                             | 0                          | 0                           | Accrued pension liability and other | 1.4                        | 0                           |
| Total derivatives designated as hedging instruments under ASC 815     |                                          | \$ 0                       | \$ 0                        |                                     | \$ 1.5                     | \$ 1.3                      |
| Derivatives not designated as hedging instruments under ASC 815       |                                          |                            |                             |                                     |                            |                             |
| Foreign exchange contracts                                            | Prepaid expense and other current assets | \$ 0.2                     | \$ 1.2                      | Other current liabilities           | \$ 0.9                     | \$ 1.4                      |
| Total derivatives not designated as hedging instruments under ASC 815 |                                          | \$ 0.2                     | \$ 1.2                      |                                     | \$ 0.9                     | \$ 1.4                      |
| Total derivatives                                                     |                                          | \$ 0.2                     | \$ 1.2                      |                                     | \$ 2.4                     | \$ 2.7                      |



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**The Effect of Derivative Instruments on the Consolidated Statements of Income****For the Six Months Ended April 30, 2011 and 2010****(In millions)****Derivatives in****ASC 815**

| Cash Flow                  | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) |          | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) |          | Location of Gain or (Loss) Recognized in Income on Derivative Ineffectiveness | Amount of Gain or (Loss) Recognized in Income Due to Ineffectiveness |      | Location of Gain or (Loss) Recognized in Income and Excluded from Effectiveness Testing | Amount of Gain or (Loss) Recognized in Income and Excluded from Effectiveness Testing |      |
|----------------------------|------------------------------------------------------------------------------|----------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|----------|-------------------------------------------------------------------------------|----------------------------------------------------------------------|------|-----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|------|
|                            | 2011                                                                         | 2010     |                                                                                              | 2011                                                                                       | 2010     |                                                                               | 2011                                                                 | 2010 |                                                                                         | 2011                                                                                  | 2010 |
| Interest rate contracts    | \$ (1.8)                                                                     | \$ (0.8) | Interest expense                                                                             | \$ (1.6)                                                                                   | \$ (6.5) | Other income/ (expense)                                                       | \$ 0                                                                 | \$ 0 | Other income/ (expense)                                                                 | \$ 0                                                                                  | \$ 0 |
| Foreign exchange contracts | 0                                                                            | 0.6      | Net sales                                                                                    | 0                                                                                          | (4.4)    | Other income/ (expense)                                                       | 0                                                                    | 0    | Other income/ (expense)                                                                 | 0                                                                                     | 0    |
| Foreign exchange contracts | 0                                                                            | 0        | Cost of sales                                                                                | 1.7                                                                                        | 1.6      | Other income/ (expense)                                                       | 0                                                                    | 0    | Other income/ (expense)                                                                 | 0                                                                                     | 0    |
| Total                      | \$ (1.8)                                                                     | \$ (0.2) |                                                                                              | \$ 0.1                                                                                     | \$ (9.3) |                                                                               | \$ 0                                                                 | \$ 0 |                                                                                         | \$ 0                                                                                  | \$ 0 |

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

| Derivatives Not Designated<br>as Hedging Instruments<br>Under ASC 815<br>Six Months Ended April 30,<br>(In millions) | Location of Gain or (Loss)<br>Recognized in Income on<br>Derivative | Amount of Gain or<br>(Loss)<br>Recognized in Income<br>on<br>Derivative |                 |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------|
|                                                                                                                      |                                                                     | 2011                                                                    | 2010            |
| Interest rate contracts                                                                                              | Interest expense                                                    | \$ 0                                                                    | \$ 0            |
| Foreign exchange contracts                                                                                           | Other income (expense), net                                         | (2.6)                                                                   | (4.2)           |
| <b>Total</b>                                                                                                         |                                                                     | <b>\$ (2.6)</b>                                                         | <b>\$ (4.2)</b> |

Note 11. Fair Value Measurements

As of April 30, 2011 and October 31, 2010, the carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, lines of credit, accounts payable and other current liabilities approximates fair value due to the short-term nature of such instruments and the ability to obtain financing on similar terms.

ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), applies to all assets and liabilities that are being measured and reported at fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. An asset's or liability's level is based on the lowest level of input that is significant to the fair value measurement. ASC 820 requires that assets and liabilities carried at fair value be valued and disclosed in one of the following three levels of the valuation hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

The Company has derivative assets and liabilities that include interest rate swaps, cross currency swaps and foreign currency forward contracts. The impact of the counterparty's creditworthiness when in an asset position and the Company's creditworthiness when in a liability position has also been factored into the fair value measurement of the derivative instruments. Both the counterparty and the Company are expected to continue to perform under the contractual terms of the instruments.

We may use interest rate swaps to maintain our desired mix of fixed-rate and variable-rate debt. The swaps exchange fixed and variable rate payments without exchanging the notional principal amount of the debt. The Company has elected to use the income approach to value the derivatives using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present amount assuming that participants are motivated, but not compelled to transact. Level 2 inputs are limited to quoted prices for similar assets or liabilities in active markets, specifically euro dollar futures contracts up to three years, and inputs other than quoted prices that are observable for the asset or liability - specifically LIBOR cash and swap rates and credit risk at commonly quoted intervals. Mid-market pricing is used as a practical expedient for fair value measurements.



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

We may use foreign exchange forward contracts to minimize, to the extent reasonable and practical, our exposure to the impact of foreign currency fluctuations. The Company has elected to use the income approach to value the derivatives, using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present amount assuming that participants are motivated but not compelled to transact. Level 2 inputs for the valuations are limited to quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability - specifically LIBOR cash rates, credit risk at commonly quoted intervals, foreign exchange spot rates and forward points. Mid-market pricing is used as a practical expedient for fair value measurements.

The following table sets forth the Company's financial assets and liabilities that were measured at fair value on a recurring basis using Level 2 inputs during the fiscal first half of 2011, within the fair value hierarchy at April 30, 2011, and fiscal year 2010, within the fair value hierarchy at October 31, 2010:

| (In millions)              | April 30, 2011 | October 31, 2010 |
|----------------------------|----------------|------------------|
| <b>Assets:</b>             |                |                  |
| Foreign exchange contracts | \$ 0.2         | \$ 1.2           |
| <b>Liabilities:</b>        |                |                  |
| Interest rate swaps        | \$ 1.5         | \$ 1.3           |
| Foreign exchange contracts | 0.9            | 1.4              |
|                            | \$ 2.4         | \$ 2.7           |

Note 12. Employee Benefits

Cooper's Retirement Income Plan (Plan), a defined benefit 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 equities and participation in equity and fixed income funds.

Cooper's results of operations for the three and six months ended April 30, 2011 and 2010 reflect the following components of net periodic pension costs:

| Periods Ended April 30,<br>(In thousands) | Three Months |        | Six Months |          |
|-------------------------------------------|--------------|--------|------------|----------|
|                                           | 2011         | 2010   | 2011       | 2010     |
| Service cost                              | \$ 1,187     | \$ 992 | \$ 2,374   | \$ 1,984 |
| Interest cost                             | 743          | 668    | 1,487      | 1,336    |
| Expected returns on assets                | (736)        | (611)  | (1,472)    | (1,222)  |
| Amortization of prior service cost        | 6            | 6      | 12         | 12       |
| Amortization of transition obligation     | 5            | 5      | 10         | 10       |
| Recognized net actuarial loss             | 188          | 199    | 376        | 398      |
| Curtailement loss                         | 0            | 0      | 0          | 44       |

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|                           |          |          |          |          |
|---------------------------|----------|----------|----------|----------|
| Net periodic pension cost | \$ 1,393 | \$ 1,259 | \$ 2,787 | \$ 2,562 |
|---------------------------|----------|----------|----------|----------|

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

The Company contributed to the pension plan \$1.2 million and \$2.0 million for the three and six months ended April 30, 2011, respectively, and expects to contribute an additional \$4.0 million in fiscal 2011. The Company contributed to the pension plan \$0.8 million and \$1.6 million for the three and six months ended April 30, 2010. The expected rate of return on plan assets for determining net periodic pension cost is 9.0%.

Note 13. Contingencies

**Legal Proceedings**

On April 28, 2011, Rembrandt Vision Technologies, L.P. filed a lawsuit against CooperVision, Inc. in the United States District Court for the Eastern District of Texas alleging that CooperVision infringes U.S. Patent No. 5,712,327 entitled "Soft Gas Permeable Contact Lens Having Improved Clinical Performance," which was issued on January 28, 1998, to Sing-Hsiung Chang and Mei-Zyh Chang. The complaint alleges that CooperVision's infringing conduct includes, but is not limited to, making, using, selling or offering to sell silicone hydrogel contact lenses. The complaint seeks an unspecified amount of damages, including treble damages, attorneys' fees and costs and an injunction preventing any alleged infringement. CooperVision has not been served with the complaint nor has CooperVision filed any response to the complaint. No discovery has taken place, and no case management order has been entered. No trial date has been set. We intend to vigorously defend against this action.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 14. 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 segment 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:

| Periods Ended April 30,<br>(In thousands)                   | Three Months |            | Six Months |            |
|-------------------------------------------------------------|--------------|------------|------------|------------|
|                                                             | 2011         | 2010       | 2011       | 2010       |
| CooperVision net sales by category:                         |              |            |            |            |
| Toric lens                                                  | \$ 84,882    | \$ 74,725  | \$ 160,669 | \$ 138,258 |
| Multifocal lens                                             | 18,083       | 18,287     | 34,712     | 34,968     |
| Single-use sphere lens                                      | 58,922       | 50,412     | 111,870    | 97,355     |
| Non single-use sphere and other eye care products and other | 113,404      | 98,869     | 211,669    | 187,653    |
| Total CooperVision net sales                                | 275,291      | 242,293    | 518,920    | 458,234    |
| CooperSurgical net sales                                    | 50,010       | 46,978     | 99,610     | 91,296     |
| Total net sales                                             | \$ 325,301   | \$ 289,271 | \$ 618,530 | \$ 549,530 |
| Operating income (loss):                                    |              |            |            |            |
| CooperVision                                                | \$ 55,932    | \$ 34,700  | \$ 106,814 | \$ 67,134  |
| CooperSurgical                                              | 12,200       | 11,102     | 24,469     | 21,155     |
| Headquarters                                                | (7,876)      | (6,768)    | (16,234)   | (12,277)   |
| Total operating income                                      | 60,256       | 39,034     | 115,049    | 76,012     |
| Interest expense                                            | 4,268        | 9,730      | 11,219     | 19,955     |
| Loss on extinguishment of debt                              | 16,487       | 0          | 16,487     | 0          |
| Litigation settlement charge                                | 0            | 27,000     | 0          | 27,000     |
| Other income (expense), net                                 | 219          | 168        | (514)      | (2,159)    |
| Income before income taxes                                  | \$ 39,720    | \$ 2,472   | \$ 86,829  | \$ 26,898  |

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Concluded

(Unaudited)

| (In thousands)       | April 30, 2011      | October 31, 2010    |
|----------------------|---------------------|---------------------|
| Identifiable assets: |                     |                     |
| CooperVision         | \$ 2,220,742        | \$ 2,141,685        |
| CooperSurgical       | 332,287             | 328,931             |
| Headquarters         | 72,163              | 54,402              |
| <b>Total</b>         | <b>\$ 2,625,192</b> | <b>\$ 2,525,018</b> |

Geographic information:

| Periods Ended April 30,<br>(In thousands)               | Three Months      |                   | Six Months        |                   |
|---------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                         | 2011              | 2010              | 2011              | 2010              |
| Net sales to external customers by country of domicile: |                   |                   |                   |                   |
| United States                                           | \$ 154,470        | \$ 144,698        | \$ 288,205        | \$ 263,053        |
| Europe                                                  | 95,500            | 84,728            | 184,404           | 168,246           |
| Rest of world                                           | 75,331            | 59,845            | 145,921           | 118,231           |
| <b>Total</b>                                            | <b>\$ 325,301</b> | <b>\$ 289,271</b> | <b>\$ 618,530</b> | <b>\$ 549,530</b> |

| (In thousands)                            | April 30, 2011    | October 31, 2010  |
|-------------------------------------------|-------------------|-------------------|
| Long-lived assets by country of domicile: |                   |                   |
| United States                             | \$ 361,711        | \$ 357,200        |
| Europe                                    | 234,419           | 227,780           |
| Rest of world                             | 9,875             | 8,907             |
| <b>Total</b>                              | <b>\$ 606,005</b> | <b>\$ 593,887</b> |



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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 statements relating to plans, prospects, goals, strategies, future actions, events or performance and other statements which are other than statements of historical fact. In addition, all statements regarding anticipated growth in our net sales, anticipated market conditions, planned product launches and expected results of operations and integration of any acquisition 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. Forward-looking statements necessarily depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Among the factors that could cause our actual results and future actions to differ materially from those described in forward-looking statements are:

Adverse changes in global or regional general business, political and economic conditions due to the current global economic downturn, including the impact of continuing uncertainty and instability of U.S. and international credit markets that may adversely affect the Company's or its customers' ability to meet future liquidity needs.

A major disruption in the operations of our manufacturing, research and development or distribution facilities, due to technological problems, natural disasters or other causes.

Disruptions in supplies of raw materials, particularly components used to manufacture our silicone hydrogel lenses and other hydrogel lenses.

Legal costs, insurance expenses, settlement costs and the risk of an adverse decision or settlement related to claims involving litigation, product liability or patent protection.

Changes in tax laws or their interpretation, changes in effective tax rates and adverse tax interpretations by taxing agencies or courts.

Limitations on sales following new product introductions due to poor market acceptance.

New competitors or product innovations or technologies from competitors.

The impact of acquisitions or divestitures on revenues, earnings or margins.

Interest rate and foreign currency exchange rate fluctuations.

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The requirement to provide for a significant liability or to write off, or accelerate depreciation on, a significant asset, including impaired goodwill as a result of declines in the price of the Company's common stock or other events.

Changes in U.S. and foreign government regulation of the retail optical industry and of the healthcare industry generally.

Failures to receive, or delays in receiving, U.S. or foreign regulatory approvals for products.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

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Failure to obtain adequate coverage and reimbursement from third party payors for our products.

Compliance costs and potential liability in connection with U.S. and foreign healthcare regulations, including product recalls, and potential losses resulting from sales of counterfeit and other infringing products.

The success of the Company's research and development activities and other start-up projects.

Dilution to earnings per share from acquisitions or issuing stock.

Changes in accounting principles or estimates.

Environmental risks.

Other events described in our Securities and Exchange Commission filings, including the Business and Risk Factors sections in this Annual Report on Form 10-K for the fiscal year ended October 31, 2010, 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.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

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**Results of Operations**

In this section, we discuss the results of our operations for the fiscal second quarter of 2011 and compare them with the same period of fiscal 2010. We discuss our cash flows and current financial condition under Capital Resources and Liquidity.

**Second Quarter Highlights**

Net sales of \$325.3 million, up 12% from the fiscal second quarter of 2010.

Gross profit \$201.8 million, up from \$163.5 million.

Operating income up 54% to \$60.3 million.

Diluted earnings per share of 73 cents, up from 10 cents per share.

Results include costs of \$16.5 million related to the redemption of our Senior Notes in the current year period and a \$27.0 million charge related to the settlement of all claims in the class action lawsuit in the prior year period.

Cash provided by operations \$64.9 million, down from \$71.6 million.

**Six-Month Highlights**

Net sales of \$618.5 million, up 13%.

Gross profit \$378.4 million, up from \$313.3 million.

Operating income up 51% to \$115.0 million.

Diluted earnings per share of \$1.69, up from 54 cents per share.

Results include costs of \$16.5 million related to the redemption of our Senior Notes in the current year period and a \$27.0 million charge related to the settlement of all claims in the class action lawsuit in the prior year period.

Cash provided by operations \$137.8 million, up from \$127.8 million.

**Outlook**

Overall, we remain optimistic about the long-term prospects for the worldwide contact lens and women's healthcare markets. However, events affecting the economy as a whole, including the uncertainty and instability of global markets driven by employment, housing and credit concerns continue to represent a risk to our forecasted performance for the remainder of fiscal year 2011 and beyond. We do not expect that our net sales, operations or supply of raw materials will be materially affected by the earthquake and tsunami that struck Japan in March 2011. Our facilities in Japan remain intact and undamaged, and our fiscal second quarter results indicated no significant impact. However, we are monitoring customer, distributor and supplier activity as there is uncertainty regarding the broader effects on the Japanese economy that represent a risk to our forecasted performance.

We compete in the worldwide contact lens market with our spherical, toric and multifocal contact lenses offered in a variety of materials including using phosphorylcholine (PC) Technology and silicone hydrogel Aquaform technology. We believe that there will be lower contact lens wearer dropout rates as technology improves thereby enhancing the wearing experience through a combination of improved designs and materials. CooperVision is focused on greater worldwide market penetration as we roll out new products and continue to expand our presence in existing and emerging markets as well as the growth of preferred modalities such as single-use and monthly wearing options.

Sales of contact lenses utilizing silicone hydrogel materials, a major product material in the industry, have grown significantly. In the past three years, CooperVision launched monthly silicone hydrogel spherical, toric and multifocal lens products under our Biofinity® brand and two-week silicone hydrogel spherical and toric lens products under our Avaira® brand. We intend to launch our

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

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Biofinity spherical silicone hydrogel lens in Japan in 2011. While we believe that we have high quality silicone hydrogel contact lens products, our future growth may be limited by our late entry into the silicone hydrogel segment of the market. For example, competitive silicone hydrogel single-use and multifocal lens products are gaining market share and represent a risk to our business. We have limited manufacturing capacity for our silicone hydrogel multifocal product and have not yet marketed a silicone hydrogel single-use product. Our ability to compete successfully with a full range of silicone hydrogel products is an important factor to achieving our projected future levels of sales growth and profitability.

We are also in the process of developing a number of new contact lens products to enhance CooperVision's worldwide product lines. New products planned for introduction over the next two years include additional lenses utilizing silicone hydrogel and PC Technology materials and new lens designs, including multifocal and single-use silicone hydrogel lenses.

The medical device segment of the women's healthcare market is highly fragmented. CooperSurgical competes based on brand awareness and market-focused product offerings, with a strategy that includes identifying and acquiring selected companies and product lines that improve its existing market position or serve new clinical areas. In April 2011, CooperSurgical acquired Apple Medical, a small privately held company that develops and markets medical devices specifically designed for obstetricians and gynecologists. The primary products include the OB/Mobius Elastic<sup>®</sup> Retractor used in cesarean sections, the Fischer Cone Biopsy Excisor used for cervical biopsies, and the Hunt Trocar used in laparoscopic surgical procedures. During fiscal 2010, CooperSurgical purchased the Her Option<sup>®</sup> endometrial ablation product line from American Medical Systems Holdings, Inc., and a smoke evacuation system for use during laparoscopic procedures performed in an operating room environment. We intend to continue to invest in CooperSurgical's business through acquisitions of companies and product lines.

In connection with the normal management of our financial liabilities, in our fiscal first quarter we refinanced our syndicated Senior Unsecured Revolving Line of Credit due to mature on January 31, 2012, with a new Credit Agreement that provides for a multicurrency revolving credit facility in an aggregate principal amount of \$750.0 million and a term loan facility in an aggregate principal amount of \$250.0 million, each of which, mature on January 12, 2016. On February 15, 2011, we redeemed all \$339.0 million aggregate principal amount outstanding of our Senior Notes, in accordance with the terms of the Indenture, from borrowings under the new Credit Agreement, including \$250.0 million from the term loan facility. As of April 30, 2011, we had \$460.4 million available under the Credit Agreement. We believe that our cash and cash equivalents, cash flow from operating activities and existing credit facilities will fund future operations, capital expenditures, cash dividends and acquisitions.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Conditionand Results of Operations, Continued**Selected Statistical Information - Percentage of Sales and Growth**

| Percentage of Sales<br>Periods Ended April 30, | Three Months |      |          | Six Months |      |          |
|------------------------------------------------|--------------|------|----------|------------|------|----------|
|                                                | 2011         | 2010 | % Change | 2011       | 2010 | % Change |
| Net sales                                      | 100%         | 100% | 12%      | 100%       | 100% | 13%      |
| Cost of sales                                  | 38%          | 43%  | (2%)     | 39%        | 43%  | 2%       |
| Gross profit                                   | 62%          | 57%  | 23%      | 61%        | 57%  | 21%      |
| Selling, general and administrative expense    | 39%          | 38%  | 14%      | 39%        | 39%  | 13%      |
| Research and development expense               | 3%           | 3%   | 21%      | 3%         | 2%   | 24%      |
| Restructuring costs                            |              | 1%   |          |            |      |          |
| Gain on settlement of preexisting relationship |              |      |          | 2%         |      |          |
| Amortization of intangibles                    | 1%           | 2%   | 5%       | 2%         | 2%   | 8%       |
| Operating income                               | 19%          | 13%  | 54%      | 19%        | 14%  | 51%      |

**Net Sales**

Cooper's two business units, CooperVision and CooperSurgical, generate all of its sales.

CooperVision develops, manufactures and markets a broad range of contact lenses for the worldwide vision correction market. Dedicated to enhancing the contact lens experience for practitioners and patients, CooperVision specializes in lenses for astigmatism, presbyopia and ocular dryness.

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

Our consolidated net sales grew by \$36.0 million or 12% and \$69.0 million or 13% in the three and six months ended April 30, 2011,

respectively.

| Periods Ended April 30, | Three Months |          |          | Six Months |          |          |
|-------------------------|--------------|----------|----------|------------|----------|----------|
|                         | 2011         | 2010     | % Change | 2011       | 2010     | % Change |
| CooperVision            | \$ 275.3     | \$ 242.3 | 14%      | \$ 518.9   | \$ 458.2 | 13%      |
| CooperSurgical          | 50.0         | 47.0     | 6%       | 99.6       | 91.3     | 9%       |
|                         | \$ 325.3     | \$ 289.3 | 12%      | \$ 618.5   | \$ 549.5 | 13%      |





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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

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**CooperVision Net Sales**

The contact lens market has two major product categories:

Spherical lenses including lenses that correct near- and farsightedness uncomplicated by more complex visual defects.

Toric and multifocal lenses including lenses that, in addition to correcting near- and farsightedness, address more complex visual defects such as astigmatism and presbyopia by adding optical properties of cylinder and axis, which correct for irregularities in the shape of the cornea.

In order to achieve comfortable and healthy contact lens wear, products are sold with recommended replacement schedules, otherwise defined as modalities, with the primary modalities being single-use, two-week and monthly. CooperVision offers spherical, aspherical, toric, multifocal and toric multifocal lens products in all primary modalities.

The market for conventional lenses that are replaced annually has shifted 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. Significantly, the market for commodity spherical lenses has shifted to value-added spherical lenses to alleviate dry eye symptoms as well as lenses with aspherical optical properties or higher oxygen permeable lenses such as silicone hydrogels.

CooperVision's Proclear® brand aspheric, toric and multifocal contact lenses, manufactured using proprietary phosphorylcholine (PC) Technology, help enhance tissue/device compatibility and offer improved lens comfort.

CooperVision's Biofinity brand silicone hydrogel spherical, toric and multifocal contact lenses and Avaira brand spherical and toric products are manufactured using proprietary Aquaform technology to increase oxygen transmissibility for longer wear. We believe that it is important to develop a full range of multifocal and single-use silicone hydrogel products due to increased pressure from silicone hydrogel products offered by our major competitors.

Net sales growth in the three-month period includes increases in single-use spheres up 17% and total spheres up 10%. Total toric lenses grew 14%, including 22% growth of single-use toric lenses. Multifocal lenses declined 1% compared to the prior year period. Silicone hydrogel products grew 49%, and Proclear products increased 7%. Older conventional lens products and cosmetic lenses declined 16% and 29%, respectively.

CooperVision competes in the worldwide soft contact lens market and services three primary regions: the Americas, EMEA (Europe, Middle East and Africa) and Asia Pacific.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Conditionand Results of Operations, Continued**CooperVision Net Sales by Region**

| Periods Ended April 30,<br>(\$ in millions) | Three Months |          |          | Six Months |          |          |
|---------------------------------------------|--------------|----------|----------|------------|----------|----------|
|                                             | 2011         | 2010     | % Change | 2011       | 2010     | % Change |
| Americas                                    | \$ 117.3     | \$ 110.4 | 6%       | \$ 213.5   | \$ 196.4 | 9%       |
| EMEA                                        | 97.2         | 86.6     | 12%      | 187.9      | 171.3    | 10%      |
| Asia Pacific                                | 60.8         | 45.3     | 34%      | 117.5      | 90.5     | 30%      |
|                                             | \$ 275.3     | \$ 242.3 | 14%      | \$ 518.9   | \$ 458.2 | 13%      |

CooperVision's worldwide net sales grew 14% in the three-month period and grew 13% in the six-month period. Americas net sales grew 6% and 9% in the three- and six-month periods, respectively, primarily due to market gains of CooperVision's silicone hydrogel spherical and toric lenses, up 44% in the three-month period and 46% in the six-month period, and single-use lenses, up 23% in the three-month period and 19% in the six-month period. In our fiscal first quarter of 2010, we recorded \$10.1 million of reductions to Americas net sales due to out-of-period adjustments to increase accruals for rebates that were under-accrued in fiscal 2009. EMEA net sales grew 12% and 10% driven by increases in sales of silicone hydrogel lenses, up 56% and 57% and Proclear 1 Day lenses, up 28% and 21% in the three- and six-month periods, respectively. Net sales to the Asia Pacific region grew 34% and 30% in the three- and six-month periods, primarily due to sales growth of single-use spherical and toric products, up 18% in both the three- and six-month periods and silicone hydrogel lenses, up 67% and 64%; these results include sales related to product lines acquired on December 1, 2010 of \$8.2 million and \$13.6 million in the current year three- and six-month periods.

CooperVision's net sales growth is driven primarily by increases in the volume of lenses sold and introduction of new products, primarily silicone hydrogel lenses. While unit growth and product mix have influenced CooperVision's sales growth, average realized prices by product have not materially influenced sales growth.

**CooperSurgical Net Sales**

CooperSurgical's net sales increased 6% and 9% in the three- and six-month periods to \$50.0 million and \$99.6 million, respectively, with net sales growth excluding acquisitions of 5% and 6%, respectively. Sales of products used in surgical procedures grew 16% and represent 36% of CooperSurgical's sales compared to 33% in the prior year period. CooperSurgical's sales are primarily comprised of women's healthcare products used by obstetricians and gynecologists. The balance consists of sales of medical devices outside of women's healthcare which CooperSurgical does not actively market. Unit growth and product mix along with increased average realized prices on disposable products have influenced organic sales growth.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Conditionand Results of Operations, Continued**Cost of Sales/Gross Profit**

| Gross Profit Percentage of Net Sales<br>Periods Ended April 30, | Three Months |      | Six Months |      |
|-----------------------------------------------------------------|--------------|------|------------|------|
|                                                                 | 2011         | 2010 | 2011       | 2010 |
| CooperVision                                                    | 61%          | 55%  | 61%        | 56%  |
| CooperSurgical                                                  | 65%          | 62%  | 64%        | 62%  |
| Consolidated                                                    | 62%          | 57%  | 61%        | 57%  |

The increase in CooperVision's gross margin is largely attributable to improvements in manufacturing efficiencies and product mix, primarily the shift to higher margin silicone hydrogel products. The gross margin includes efficiencies associated with the 2009 CooperVision Manufacturing restructuring plan. There were no restructuring costs under the plan reported for the current year period compared to \$3.6 million in last year's second quarter. Restructuring costs under the plan for the six-month periods ending April 30, 2011 and 2010 were \$1.9 million and \$5.8 million, respectively. These restructuring costs are primarily severance charges and accelerated depreciation, and we do not expect to incur similar costs related to this manufacturing restructuring plan in future periods. Gross margin for the fiscal first half of 2010 reflects the increase in accruals for rebates discussed above.

The increase in CooperSurgical's gross margin for the fiscal first half of 2011 is largely attributable to manufacturing efficiency improvements and product mix including higher margins on products used in surgical procedures, which represented 36% of net sales in the current period compared to 33% in the fiscal 2010 period.

**Selling, General and Administrative Expense (SGA)****Three Months Ended April 30,**

| (\$ in millions) | 2011     | % Net Sales | 2010     | % Net Sales | % Change |
|------------------|----------|-------------|----------|-------------|----------|
| CooperVision     | \$ 101.2 | 37%         | \$ 89.0  | 37%         | 14%      |
| CooperSurgical   | 17.3     | 35%         | 15.5     | 33%         | 12%      |
| Headquarters     | 7.9      | N/A         | 6.8      | N/A         | 16%      |
|                  | \$ 126.4 | 39%         | \$ 111.3 | 38%         | 14%      |

**Six Months Ended April 30,**

| (\$ in millions) | 2011     | % Net Sales | 2010     | % Net Sales | % Change |
|------------------|----------|-------------|----------|-------------|----------|
| CooperVision     | \$ 189.7 | 37%         | \$ 169.2 | 37%         | 12%      |
| CooperSurgical   | 33.9     | 34%         | 30.4     | 33%         | 11%      |
| Headquarters     | 16.2     | N/A         | 12.3     | N/A         | 32%      |
|                  | \$ 239.8 | 39%         | \$ 211.9 | 39%         | 13%      |

The increase in CooperVision's SGA in the fiscal 2011 period is primarily due to our increased investment in sales and marketing to reach new customers and to promote our silicone hydrogel products as well as investments in infrastructure such as information technology.

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The increase in CooperSurgical's SGA in the fiscal 2011 period is primarily due to increased selling and marketing costs to support higher sales and anticipated further growth.

Corporate headquarters SGA increased in the fiscal 2011 period primarily due to accrued bonuses in the current year period that were not in the prior year period and increased share-based compensation costs partially offset by reduced consulting fees.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Conditionand Results of Operations, Continued**Research and Development Expense****Three Months Ended April 30,**

| (\$ in millions) | 2011    | %<br>Net<br>Sales | 2010   | % Net<br>Sales | %<br>Change |
|------------------|---------|-------------------|--------|----------------|-------------|
| CooperVision     | \$ 9.0  | 3%                | \$ 7.4 | 3%             | 22%         |
| CooperSurgical   | 1.4     | 3%                | 1.2    | 3%             | 15%         |
|                  | \$ 10.4 | 3%                | \$ 8.6 | 3%             | 21%         |

**Six Months Ended April 30,**

| (\$ in millions) | 2011    | % Net<br>Sales | 2010    | % Net<br>Sales | %<br>Change |
|------------------|---------|----------------|---------|----------------|-------------|
| CooperVision     | \$ 17.2 | 3%             | \$ 13.9 | 3%             | 23%         |
| CooperSurgical   | 2.9     | 3%             | 2.3     | 2%             | 29%         |
|                  | \$ 20.1 | 3%             | \$ 16.2 | 2%             | 24%         |

CooperVision research and development expense increased in dollars in the fiscal 2011 period primarily due to investments in new technologies, clinical trials and increased headcount. CooperVision's research and development activities include programs to develop disposable silicone hydrogel products and product lines utilizing PC Technology.

CooperSurgical research and development expense increased in dollars in the current period, primarily due to investments in the design of the next generation product line of uterine manipulators. Other research and development activities include the upgrade and expansion of CooperSurgical's portfolio of assisted reproductive technology products as well as products within the general obstetrics and gynecology offerings.

**Gain on Settlement of Preexisting Relationship**

On December 1, 2010, CooperVision purchased certain assets of Asahikasei Aime Co., Ltd. (Aime) from Asahi Kasei Pharma Corporation, and the results of operations are included in our consolidated results of operations from that date. Prior to the acquisition, Aime had retained the right to sell our Biofinity brand of contact lenses in certain defined markets. In accordance with the accounting guidance relating to the accounting for a preexisting relationship between the parties to a business combination, we recorded a gain of \$6.1 million on the settlement of this supply agreement in our Consolidated Statement of Income for the fiscal first half of 2011. The gain increased the related goodwill.

**Operating Income****Three Months Ended April 30,**

| (\$ in millions) | 2011    | % Net<br>Sales | 2010    | % Net<br>Sales | %<br>Change |
|------------------|---------|----------------|---------|----------------|-------------|
| CooperVision     | \$ 55.9 | 20%            | \$ 34.7 | 14%            | 61%         |

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|                |         |     |         |     |       |
|----------------|---------|-----|---------|-----|-------|
| CooperSurgical | 12.3    | 24% | 11.1    | 24% | 10%   |
| Headquarters   | (7.9)   | N/A | (6.8)   | N/A | (16%) |
|                | \$ 60.3 | 19% | \$ 39.0 | 13% | 54%   |

Six Months Ended April 30,

| (\$ in millions) | 2011     | % Net Sales | 2010    | % Net Sales | % Change |
|------------------|----------|-------------|---------|-------------|----------|
| CooperVision     | \$ 106.8 | 21%         | \$ 67.1 | 15%         | 59%      |
| CooperSurgical   | 24.4     | 25%         | 21.2    | 23%         | 16%      |
| Headquarters     | (16.2)   | N/A         | (12.3)  | N/A         | (32%)    |
|                  | \$ 115.0 | 19%         | \$ 76.0 | 14%         | 51%      |

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

The increases in operating income in the fiscal 2011 periods both in absolute dollars and as a percentage of net sales were primarily due to increases in gross profit of 23% and 21% for the three- and six-month periods, respectively, partially offset by increases in operating expenses of 14% and 11% in the same periods, respectively. The gain on settlement also contributed to the increase in the six-month period of 2011.

**Interest Expense**

Interest expense in the fiscal second quarter decreased 56% to \$4.3 million and to 1% of net sales from 3% of net sales in the prior year period, and year to date decreased 44% to \$11.2 million and to 2% of net sales from 4% in the prior year six-month period. The decrease reflects lower interest rates primarily as a result of the redemption of our senior notes in February and a reduction in our long-term borrowings used for capital expenditures.

**Loss on Extinguishment of Debt**

In February 2011, we redeemed all \$339.0 million aggregate principal amount outstanding of the Senior Notes issued on January 31, 2007, in accordance with the terms of the Indenture among the Company, the guarantors party thereto and HSBC Bank USA, National Association, as trustee, pursuant to which the Senior Notes were issued. In accordance with the Indenture, the redemption price for the Notes was 103.563% of their principal amount plus accrued and unpaid interest to February 15, 2011, the redemption date. In our fiscal second quarter of 2011, we recorded a \$16.5 million loss on the repurchase that includes the write-off of about \$4.4 million of unamortized costs and the redemption premium of \$12.1 million related to the Senior Notes on our Consolidated Statement of Income. The Company paid the aggregate purchase price from borrowings under the new Credit Agreement, including \$250.0 million from the term loan facility.

**Settlement**

The Company and several of its directors and officers had been named in a consolidated securities class action lawsuit, the nature and status of which is described in Note 12. Commitments and Contingencies in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010. The Company announced on May 4, 2010, that it reached an agreement in principle and recorded a charge in our fiscal second quarter 2010 to settle the consolidated class action lawsuit for \$27.0 million, which we funded into escrow in our fiscal fourth quarter of 2010. The Court granted final approval of the proposed settlement on December 13, 2010.

**Other Income (Expense), Net**

| Periods Ended April 30,<br>(In millions) | Three Months |        | Six Months |          |
|------------------------------------------|--------------|--------|------------|----------|
|                                          | 2011         | 2010   | 2011       | 2010     |
| Foreign exchange gain (loss)             | \$ 0.3       | \$ 0.4 | \$ (0.4)   | \$ (1.9) |
| Other, net                               | (0.1)        | (0.2)  | (0.1)      | (0.3)    |
|                                          | \$ 0.2       | \$ 0.2 | \$ (0.5)   | \$ (2.2) |

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Conditionand Results of Operations, Continued**Provision for Income Taxes**

We recorded income tax expense of \$6.2 million in the fiscal first half of 2011 compared to \$2.0 million in the prior year period. Cooper's effective tax rate (ETR) (provision for income taxes divided by pretax income) for the fiscal first half of 2011 was 7.1%. Our year-to-date results include the projected fiscal year ETR, plus any discrete items. The ETR used to record the provision for income taxes for the fiscal first half of 2010 was 7.5%. The decrease in the fiscal 2011 ETR reflects the shift in the geographic mix of income during the period. The ETR is below the United States statutory rate as a majority of our income is earned in foreign jurisdictions with lower tax rates.

**Share-Based Compensation Plans**

The Company has several share-based compensation plans that are described in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2010. The compensation expense and related income tax benefit recognized in the Company's consolidated financial statements for share-based awards were as follows:

| Periods Ended April 30,<br>(In millions)    | Three Months  |               | Six Months    |               |
|---------------------------------------------|---------------|---------------|---------------|---------------|
|                                             | 2011          | 2010          | 2011          | 2010          |
| Selling, general and administrative expense | \$ 3.2        | \$ 1.7        | \$ 7.9        | \$ 4.3        |
| Cost of sales                               | 0.2           | 0.2           | 0.5           | 0.4           |
| Research and development expense            | 0.2           | 0.1           | 0.3           | 0.2           |
| Capitalized in inventory                    | 0.2           | 0.2           | 0.5           | 0.4           |
| <b>Total compensation expense</b>           | <b>\$ 3.8</b> | <b>\$ 2.2</b> | <b>\$ 9.2</b> | <b>\$ 5.3</b> |
| Related income tax benefit                  | \$ 1.1        | \$ 0.6        | \$ 2.8        | \$ 1.6        |



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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 \$64.9 million vs. \$71.6 million in the fiscal second quarter of 2010.

Expenditures for purchases of property, plant and equipment (PP&E) \$23.2 million vs. \$11.2 million in the prior year period.

Total debt decreased to \$553.2 million from \$611.1 million at October 31, 2010.

**Six-Month Highlights**

Operating cash flow \$137.8 million vs. \$127.8 million in the fiscal first half of 2010.

Expenditures for purchases of PP&E \$52.0 million vs. \$24.1 million in the prior year period.

Cash payments for acquisitions totaled \$36.6 million vs. \$31.0 million in the prior year period.

**Comparative Statistics**

| (\$ in millions)                             | April 30, 2011 | October 31, 2010 |
|----------------------------------------------|----------------|------------------|
| Cash and cash equivalents                    | \$ 8.4         | \$ 3.6           |
| Total assets                                 | \$ 2,625.2     | \$ 2,525.0       |
| Working capital                              | \$ 332.3       | \$ 291.8         |
| Total debt                                   | \$ 553.2       | \$ 611.1         |
| Stockholders' equity                         | \$ 1,810.3     | \$ 1,666.8       |
| Ratio of debt to equity                      | 0.31:1         | 0.37:1           |
| Debt as a percentage of total capitalization | 23%            | 27%              |
| Operating cash flow - twelve months ended    | \$ 277.7       | \$ 267.7         |

**Working Capital**

The increase in working capital in the fiscal second quarter of 2011 was primarily due to increases in inventories and other current assets and decreases in accounts payable and other accrued liabilities, partially offset by the current portion of the term loan.

**Operating Cash Flow**

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Cash flow provided by operating activities increased to \$137.8 million in the fiscal first half of 2011 from \$127.8 million in the prior year period, primarily due to the increase in net income partially offset by the increase in inventory to provide for new product launches.

At the end of the fiscal first half of 2011, Cooper's inventory months on hand (MOH) increased to 6.1 from 5.7 at April 30, 2010. Our days sales outstanding (DSO) were 54 days, consistent with the prior year period. 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**

Cash used in investing activities of \$88.6 million in the fiscal first half of 2011 was for capital expenditures of \$52.0 million, primarily to improve manufacturing efficiency, and payments of \$36.6 million related to acquisitions.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

**Financing Cash Flow**

Cash used in financing activities of \$44.7 million in the fiscal first half of 2011 was driven by net repayments of debt of \$70.0 million, acquisition costs related to the Credit Agreement of \$9.5 million and dividends paid on our common stock of \$1.4 million, partially offset by proceeds of \$36.2 million from the exercise of share-based compensation awards.

As of April 30, 2011, we had \$460.4 million available under the Credit Agreement, and we are in compliance with the material covenants of Interest Coverage Ratio and Total Leverage Ratio at 12.33 to 1.00 versus the requirement to be at least 3.00 to 1.00 and 1.61 to 1.00 versus the requirement to remain below 3.75 to 1.00, respectively. As defined in the Credit Agreement, the Interest Coverage Ratio is the ratio of Consolidated Proforma EBITDA to Consolidated Interest Expense and the Total Leverage Ratio is the ratio of Consolidated Funded Indebtedness to Consolidated Proforma EBITDA.

**Estimates and Critical Accounting Policies**

Management estimates and judgments are an integral part of financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). We believe that the critical accounting policies listed below 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. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results are:

Revenue recognition

Allowance for doubtful accounts

Net realizable value of inventory

Valuation of goodwill

Business combinations

Income taxes

Share-based compensation

During the fiscal first half of 2011, there were no significant changes in our estimates and critical accounting policies. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K

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for the fiscal year ended October 31, 2010, for a more complete discussion of our estimates and critical accounting policies.

The Company performed its annual impairment test for valuation of goodwill during the fiscal third quarter of 2010, and our analysis indicated that we had no impairment of goodwill. As described in Note 4. Intangible Assets in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010, we will continue to monitor conditions and changes that could indicate that our recorded goodwill may be impaired.

### **Trademarks**

Aquaform<sup>®</sup>, Avaira<sup>®</sup>, Biofinity<sup>®</sup>, Her Option<sup>®</sup>, OB/Mobius<sup>®</sup> and Proclear<sup>®</sup> are registered trademarks of The Cooper Companies, Inc., its affiliates and/or subsidiaries. Fischer Cone Biopsy Excisor, Hunt Trocar and PC Technology are trademarks of The Cooper Companies, Inc., its affiliates and/or subsidiaries.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

Most of our operations outside the United States have their local currency as their functional currency. We are exposed to risks caused by changes in foreign exchange, principally our British pound sterling, euro, Japanese yen, Swedish krona and Canadian dollar-denominated debt and receivables, and from operations in foreign currencies. We have taken steps to minimize our balance sheet exposure. Although we may enter into foreign exchange agreements with financial institutions to reduce our exposure to fluctuations in foreign currency values relative to our debt or receivables obligations, these hedging transactions do not eliminate that risk entirely. We are also exposed to risks associated with changes in interest rates, as the interest rate on our Credit Agreement may vary with the London Interbank Offered Rate (LIBOR). We have decreased this interest rate risk by hedging a significant portion of variable rate debt effectively converting it to fixed rate debt for varying periods through December 2014. For additional detail, see Item 1A. Risk Factors and Note 1 and Note 7 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010 and Note 10 in this Quarterly Report on Form 10-Q for the period ended April 30, 2011.

In connection with the normal management of our financial liabilities, we refinanced our syndicated Senior Unsecured Revolving Line of Credit due to mature on January 31, 2012, with a new Credit Agreement that provides for a multicurrency revolving credit facility in an aggregate principal amount of \$750.0 million and a term loan facility in an aggregate principal amount of \$250.0 million, each of which, mature on January 12, 2016. On February 15, 2011, we redeemed all \$339.0 million aggregate principal amount outstanding of our Senior Notes, in accordance with the terms of the Indenture, from borrowings under the new Credit Agreement, including \$250.0 million from the term loan facility.

**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.

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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, 2011, 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, 2011, 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**

On April 28, 2011, Rembrandt Vision Technologies, L.P. filed a lawsuit against CooperVision, Inc. in the United States District Court for the Eastern District of Texas alleging that CooperVision infringes U.S. Patent No. 5,712,327 entitled Soft Gas Permeable Contact Lens Having Improved Clinical Performance, which was issued on January 28, 1998, to Sing-Hsiung Chang and Mei-Zyh Chang. The complaint alleges that CooperVision's infringing conduct includes, but is not limited to, making, using, selling or offering to sell silicone hydrogel contact lenses. The complaint seeks an unspecified amount of damages, including treble damages, attorneys' fees and costs and an injunction preventing any alleged infringement. CooperVision has not been served with the complaint nor has CooperVision filed any response to the complaint. No discovery has taken place, and no case management order has been entered. No trial date has been set. We intend to vigorously defend against this action.

On April 1, 2011, the Internal Revenue Service (IRS) issued a Notice of Deficiency to the Company in connection with its audit of the Company's income tax returns for the years 2005 and 2006. The Notice asserts that the Company is subject to additional taxes due to a proposed adjustment under the anti-deferral provisions of Subpart F of the Internal Revenue Code. If sustained, such taxes should be offset by the Company's existing federal net operating loss carryforwards leaving a \$1.2 million balance of proposed taxes owed. The Company intends to defend its positions taken in its income tax returns vigorously. However, if the IRS's contentions were sustained, the Company's existing federal net operating loss carryforwards could be materially reduced, which could result in a material adverse effect on the Company's future net income.

**Item 1A. Risk Factors**

There have been no material changes in the Company's risk factors from those disclosed in our Annual Report on Form 10-K for fiscal year ended October 31, 2010.

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**Item 6. Exhibits**

| Exhibit Number | Description                                                                                                                                                                   |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1           | Amended and Restated 2007 Long-Term Incentive Plan of The Cooper Companies, Inc.                                                                                              |
| 10.2           | Amended and Restated 2006 Long-Term Incentive Plan for Non-Employee Directors of The Cooper Companies, Inc.                                                                   |
| 11*            | Calculation of Earnings Per Share                                                                                                                                             |
| 22.1           | Submission of Matters to a Vote of Security Holders filed as Item 5.07 in the Company's Current Report on Form 8-K filed March 22, 2011, and incorporated herein by reference |
| 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                                                                                              |
| 101.INS        | XBRL Instance Document                                                                                                                                                        |
| 101.SCH        | BRL Taxonomy Extension Schema                                                                                                                                                 |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase                                                                                                                                  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase                                                                                                                                        |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase                                                                                                                                 |

\* The information called for in this Exhibit is provided in Note 7. Earnings Per Share 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.

The Cooper Companies, Inc.  
(Registrant)

Date: June 3, 2011

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

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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