COOPER COMPANIES INC
Form 10-Q
September 10, 2007
Table of Contents

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 July 31, 2007

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

Commission File Number 1-8597

The Cooper Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-2657368**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer 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 x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

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	**44,800,966 Shares**
Class	**Outstanding at August 31, 2007**

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except for earnings per share)

(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
Net sales	$ 251,862	$ 225,798	$ 696,817	$ 642,934
Cost of sales	105,938	88,037	294,526	244,649
Gross profit	145,924	137,761	402,291	398,285
Selling, general and administrative expense	104,521	90,039	302,977	263,085
Research and development expense	11,513	6,264	30,581	26,110
Restructuring costs	2,072	5,628	6,779	7,834
Amortization of intangibles	4,160	3,530	12,003	10,762
Operating income	23,658	32,300	49,951	90,494
Interest expense	11,085	8,534	31,795	28,834
Other income (expense), net	512	523	1,340	(1,655)
Income before income taxes	13,085	24,289	19,496	60,005
Provision for income taxes	4,905	3,312	6,495	7,373
Net income	8,180	20,977	13,001	52,632
Add interest charge applicable to convertible debt, net of tax	523	522		1,567
Income for calculating diluted earnings per share	$ 8,703	$ 21,499	$ 13,001	$ 54,199
Earnings per share:				
Basic	$ 0.18	$ 0.47	$ 0.29	$ 1.18
Diluted	$ 0.18	$ 0.45	$ 0.29	$ 1.14
Number of shares used to compute earnings per share:				
Basic	44,778	44,531	44,664	44,516
Diluted	47,785	47,482	45,082	47,614

See accompanying notes.

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

(Unaudited)

	July 31, 2007	October 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,061	$ 8,224
Trade accounts receivable, net of allowance for doubtful accounts of $5,818 at July 31, 2007 and $5,523 at October 31, 2006	164,332	146,584
Inventories, net	265,381	236,512
Deferred tax assets	22,200	19,659
Prepaid expense and other current assets	51,123	45,972
Total current assets	511,097	456,951
Property, plant and equipment, at cost	756,263	637,428
Less: accumulated depreciation and amortization	177,546	141,071
	578,717	496,357
Goodwill	1,255,936	1,217,084
Other intangibles, net	150,086	147,160
Deferred tax assets	23,322	21,479
Other assets	21,907	13,570
	$ 2,541,065	$ 2,352,601
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term debt	$ 53,706	$ 23,516
Current portion of long-term debt		37,850
Accounts payable	59,531	66,080
Employee compensation and benefits	30,643	29,755
Accrued acquisition costs	20,553	36,901
Accrued income taxes	36,864	28,534
Accrued interest	16,803	8,192
Other current liabilities	66,322	45,802
Total current liabilities	284,422	276,630
Long-term debt	807,580	681,286
Deferred tax liability	11,504	9,494
Accrued pension liability and other	2,197	6,682
Total liabilities	1,105,703	974,092

Commitments and Contingencies (see Note 13)		
Stockholders equity:		
Preferred stock, 10 cents par value, shares authorized: 1,000; zero shares issued or outstanding		
Common stock, 10 cents par value, shares authorized: 70,000; issued 45,184 at July 31, 2007 and 44,966 at October 31, 2006	4,518	4,497
Additional paid-in capital	1,016,630	993,713
Accumulated other comprehensive income	61,788	38,711
Retained earnings	358,320	348,000
Treasury stock at cost: 384 shares at July 31, 2007 and 418 shares at October 31, 2006	(5,894)	(6,412)
Stockholders equity	1,435,362	1,378,509
	$ 2,541,065	$ 2,352,601

See accompanying notes.

4

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended July 31, 2007	Nine Months Ended July 31, 2006
Cash flows from operating activities:		
Net income	$ 13,001	$ 52,632
Depreciation and amortization	55,651	45,020
Decrease (increase) in operating capital	11,783	(24,338)
Other non-cash items	15,427	41,545
Net cash provided by operating activities	95,862	114,859
Cash flows from investing activities:		
Purchases of property, plant and equipment	(128,688)	(124,534)
Acquisitions of businesses, net of cash acquired	(77,636)	(63,051)
Net cash used in investing activities	(206,324)	(187,585)
Cash flows from financing activities:		
Net proceeds of short-term debt	28,012	1,224
Repayments of long-term debt	(1,005,364)	(678,978)
Proceeds from long-term debt	1,093,700	731,750
Debt acquisition costs	(11,496)	(625)
Dividends on common stock	(2,681)	(2,671)
Excess tax benefit from share-based compensation arrangements	176	1,170
Proceeds from exercise of stock options	7,578	2,531
Net cash provided by financing activities	109,925	54,401
Effect of exchange rate changes on cash and cash equivalents	374	223
Net decrease in cash and cash equivalents	(163)	(18,102)
Cash and cash equivalents beginning of period	8,224	30,826
Cash and cash equivalents end of period	$ 8,061	$ 12,724

See accompanying notes.

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
Net income	$ 8,180	$ 20,977	$ 13,001	$ 52,632
Other comprehensive income:				
Foreign currency translation adjustment	6,937	5,013	26,812	17,366
Change in value of derivative instruments, net of tax	(2,908)	(113)	(3,735)	988
Minimum pension liability adjustment, net of tax				197
Other comprehensive income	4,029	4,900	23,077	18,551
Comprehensive income	$ 12,209	$ 25,877	$ 36,078	$ 71,183

See accompanying notes.

6

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

Note 1. General

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

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

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

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

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

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

Estimates and Critical Accounting Policies

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

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

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

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

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

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Our reporting units are the same as our business segments CVI and CSI reflecting the way that we manage our business. We test goodwill for impairment annually during the third fiscal quarter and when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. We performed an impairment test in our third fiscal quarter 2007, and our analysis indicated that we had no impairment of goodwill. The valuation of each of our reporting units was determined using discounted cash flows, an income valuation approach.

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

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

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

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

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

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

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

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

New Accounting Pronouncements

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company s financial statements and the related financial statement disclosures. SAB 108 permits public companies to initially apply its provisions either by (i) restating prior financial statements or (ii) recording the cumulative effect as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of retained earnings. The Company is required to adopt SAB

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

108 by the end of fiscal 2007. The Company has not completed its analysis but does not expect adoption to have a significant impact on the Company s results of operations or financial condition.

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

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

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

In February 2007, FASB Issued SFAS No. 159, *Establishing the Fair Value Option for Financial Assets and Liabilities* (SFAS 159). The Financial Accounting Standards Board has issued SFAS 159 to permit all entities to choose to elect, at specified election dates, to measure

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS 159 applies to fiscal years beginning after November 15, 2007, or our 2009 fiscal year, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS 157, *Fair Value Measurements*. An entity is prohibited from retrospectively applying SFAS 159, unless it chooses early adoption. SFAS 159 also applies to eligible items existing at November 15, 2007 (or early adoption date). The Company has not completed its analysis but does not expect the adoption of SFAS 159 to have a material effect on the Company s financial condition.

Note 2. Acquisitions

Acquisition of Wallach Surgical Devices, Inc. (Wallach): On February 22, 2007, CSI acquired all of the outstanding shares of Wallach. Wallach s products consist of various diagnostic and therapeutic medical instruments primarily for in-office use in women s healthcare and other specialty instruments relating to dermatology, ophthalmology, anesthesiology, dentistry and veterinary medicine.

We paid $20.0 million in cash for Wallach and have ascribed $14.7 million to goodwill, $1.2 million to working capital (including acquisition costs of $2.1 million), $6.5 million to other intangible assets with a weighted average estimated useful life of 5 years, $0.2 million to property, plant and equipment and $2.6 million to deferred tax liability.

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

We paid $27.2 million in cash for Lone Star and have ascribed $19.2 million to goodwill, negative $0.4 million to working capital (including acquisition costs of $2.6 million), $7.6 million to other intangible assets with a weighted average estimated useful life of 7 years, $4.3 million to property, plant and equipment and $1.3 million to deferred tax liability, and we assumed $2.2 million of long-term debt. The debt was repaid shortly after closing.

Note 3. Acquisition and Restructuring Costs

When acquisitions are recorded, we accrue for the estimated direct costs in accordance with applicable accounting guidance including Emerging Issues Task Force (EITF) Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination* (EITF 95-3), of severance and plant/office closure costs of the acquired business. Management with the appropriate level of authority have completed, or in the cases of Wallach and Lone Star are in the process of developing, their assessment of exit activities of the acquired companies and have substantially completed their plans. In addition, we also accrue for costs directly associated with acquisitions, including legal, consulting, deferred payments and due diligence.

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

There were no adjustments of accrued acquisition costs included in the determination of net income for the reported periods.

Below is a summary of activity related to accrued acquisition costs for the nine months ended July 31, 2007.

Description	Balance October 31, 2006	Additions	Payments	Balance July 31, 2007
		(In thousands)		
Plant shutdown	$ 4,813	$ 1,265	$ 1,482	$ 4,596
Severance	10,473	1,691	3,512	8,652
Contingent consideration	12,252		12,252	
Legal and consulting	5,705	1,330	1,530	5,505
Preacquisition liabilities	768		768	
Other	2,890	586	1,676	1,800
	$ 36,901	$ 4,872	$ 21,220	$ 20,553

In connection with the Ocular Sciences Inc. (Ocular) acquisition, we are progressing through our integration plan that is designed to optimize operational synergies of the combined companies. These activities include integrating duplicate facilities and expanding utilization of preferred manufacturing and distribution practices. Integration activities began in January 2005 and are expected to continue through mid calendar year 2008.

We estimate that the total restructuring costs under this integration plan, exclusive of accrued acquisition related costs, will be approximately $45 $50 million, of which approximately $25 - $30 million is cash related, and will be reported as cost of sales or restructuring costs in our Consolidated Statements of Income. In the three and nine month periods, we reported $0.9 million and $9.4 million in cost of sales and $2.1 million and $6.8 million in restructuring costs, respectively. The following table summarizes the restructuring costs incurred under this integration plan through July 31, 2007.

13

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

	Plant Shutdown	Severance	Asset Impairments	Other	Total
			(In millions)		
Restructuring costs incurred:					
Through October 31, 2006	$ 2.6	$ 4.4	$ 3.4	$ 9.4	$ 19.8
For the nine-month period ended July 31, 2007	2.7	3.1	6.3	4.1	16.2
	$ 5.3	$ 7.5	$ 9.7	$ 13.5	$ 36.0

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

Note 4. Inventories, Net

	July 31, 2007	October 31, 2006
	(In thousands)	
Raw materials	$ 36,591	$ 31,368
Work-in-process	15,375	19,774
Finished goods	213,415	185,370
	$ 265,381	$ 236,512

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

Note 5. Intangible Assets

Goodwill

	CVI	CSI	Total
		(In thousands)	
Balance as of November 1, 2005	$ 1,047,538	$ 121,511	$ 1,169,049
Net (reductions) additions during the year ended October 31, 2006	(2,339)	48,204	45,865
Other adjustments*	2,170		2,170
Balance as of October 31, 2006	$ 1,047,369	$ 169,715	$ 1,217,084
Net additions during the nine-month period ended July 31, 2007	811	34,675	35,486
Other adjustments*	3,366		3,366
Balance as of July 31, 2007	$ 1,051,546	$ 204,390	$ 1,255,936

* Primarily translation differences in goodwill denominated in foreign currency.

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Other Intangible Assets

	As of July 31, 2007		As of October 31, 2006	
	Gross Carrying Amount	Accumulated Amortization & Translation	Gross Carrying Amount	Accumulated Amortization & Translation
	(In thousands)			
Trademarks	$ 2,907	$ 428	$ 1,807	$ 231
Technology	89,687	25,811	88,950	19,739
Shelf space and market share	86,386	13,929	73,486	9,007
License and distribution rights and other	17,294	6,020	17,070	5,176
	196,274	$ 46,188	181,313	$ 34,153
Less accumulated amortization and translation	46,188		34,153	
Other intangible assets, net	$ 150,086		$ 147,160	

We estimate that amortization expense will be about $16.2 million per year in the five-year period ending October 31, 2011.

During the first and third fiscal quarters of 2007, payments of $4.2 million and $3 million, respectively, related to a license agreement to distribute gynecological medical devices were written-off as acquired in-process research and development, as the products are pending Food and Drug Administration approval.

Note 6. Debt

	July 31, 2007	October 31, 2006
	(In thousands)	
Short-term:		
Overdraft and other credit facilities	$ 53,706	$ 23,516
Current portion of long-term debt		37,850
	$ 53,706	$ 61,366
Long-term:		
Convertible senior debentures, net of discount of $2,288 and $ 2,396	$ 112,712	$ 112,604
Former credit facility		605,300
Revolver	344,500	
Senior notes	350,000	

Other	368	1,232
	807,580	719,136
Less current portion		37,850
	$ 807,580	$ 681,286

15

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

Interest rates for the Revolver are based on the London Interbank Offered Rate (LIBOR) plus additional basis points determined by certain ratios of debt to pro forma earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the credit agreement. These range from 75 to 150 basis points. As of July 31, 2007, the additional basis points were 125.

The Revolver:

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

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

At July 31, 2007, the Company s Interest Coverage Ratio was 6.15 to 1.00 and the Total Leverage Ratio was 3.47 to 1.00.

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

At July 31, 2007, we had $305.3 million available under the Revolver:

(In millions)	
Amount of Revolver	$ 650.0
Outstanding loans	(344.7)*
Available	$ 305.3

* Includes $0.2 million in letters of credit

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Senior Notes: On January 31, 2007, the Company issued $350 million aggregate principal amount of 7.125% Senior Notes (the Notes) due February 15, 2015. The Notes were initially offered in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933 and were subsequently exchanged for a like principal amount of Notes having identical terms that were registered with the Securities and Exchange Commission pursuant to a registration statement declared effective June 19, 2007. The Notes pay interest semi-annually on February 15 and August 15 of each year, beginning August 15, 2007. We may redeem some or all of the Notes at any time prior to February 15, 2011, at a price equal to 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest to the redemption date and a make-whole premium. We may redeem some or all of the Notes at any time on or after February 15, 2011, at the redemption prices (expressed as percentages of principal amounts) set forth below, plus accrued and unpaid interest to the redemption date and additional interest (if we fail to comply with certain obligations under the registration rights agreement that we entered in connection with the Notes (Additional Interest)), if any, on the Notes redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on February 15 of the years indicated below:

Year	Percent
2011	103.56%
2012	101.78%
2013 and thereafter	100.00%

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

Net proceeds from the issuance totaled approximately $342.6 million.

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

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

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Canadian Credit Facility: On April 30, 2007, the Company entered into a $10 million Canadian dollar credit facility supported by a continuing and unconditional guaranty. Interest expense is calculated on outstanding balances based on an applicable base rate plus a fixed spread. At July 31, 2007, $6.7 million of the facility was utilized. The weighted average interest rate on the outstanding balances at July 31, 2007, was 6.0%.

European Credit Facilities: On November 1, 2006, the Company entered into a $45 million European credit facility supported by a continuing and unconditional guaranty, which replaced our previous European overdraft facility. The Company will pay all forms of indebtedness in the currency in which it is denominated for those certain subsidiaries. Interest expense is calculated on all outstanding balances based on an applicable base rate for each country plus a fixed spread common across all subsidiaries covered under the guaranty. At July 31, 2007, $21 million of the facility was utilized. The weighted average interest rate on the outstanding balances was 4.93%.

In addition to the $45 million European Credit Facilities, the Company has two non-guaranteed Italian overdraft facilities totaling approximately $7 million. At July 31, 2007, $0.1 million of these two facilities was utilized. The weighted average interest rate on the outstanding balances was 3.91%.

Asian Pacific Credit Facilities: On February 22, 2006, the Company entered into a $15 million Yen-denominated credit facility in Japan supported by a continuing and unconditional guaranty. The Company will pay to the bank all forms of indebtedness in Yen upon demand by the bank. Interest expense is calculated on the outstanding balance based on the EuroYen rate plus a fixed spread. At July 31, 2007, $14.0 million of the facility was utilized. The weighted average interest rate on the outstanding balances was 1.34%.

During the three months ended April 30, 2007, the Company entered into an additional $13 million overdraft facility that included Japan and certain of our Asian Pacific subsidiaries. This overdraft facility is supported by a continuing and unconditional guaranty. The Company will pay all forms of indebtedness in the currency in which it is denominated for those certain subsidiaries. Interest expense is calculated on all outstanding balances based on an applicable base rate for each country plus a fixed spread common across all subsidiaries covered under the guaranty. At July 31, 2007, $6.1 million of the facility was utilized. The interest rate on the outstanding balances was 1.94%.

Other Short-term Debt: At July 31, 2007, the Company had $5.8 million of other short-term debt primarily in the United States.

Note 7. Derivative Instruments

We operate multiple foreign subsidiaries that manufacture and/or sell our products worldwide. As a result, our earnings, cash flows and financial position are exposed to foreign currency risk from foreign currency denominated receivables and payables, sales transactions, capital

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

expenditures and net investment in certain foreign operations. Our policy is to minimize transaction, remeasurement and specified economic exposures with derivative instruments including forward contracts. The gains and losses on foreign exchange forward contracts are intended to at least partially offset the transaction gains and losses recognized in earnings. We do not enter into foreign exchange forward contracts for trading or speculative purposes. Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), all derivatives are recorded on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify, or are not effective as cash flow hedges, must be recognized currently in earnings.

Cash Flow Hedging

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

Interest Rate Swaps

To meet certain management and business objectives, the Company entered into four new interest rate swaps on May 3, 2007. These new interest rate swaps, totaling $250 million, serve to fix the floating rate debt under the Revolver for terms between 30 and 48 months with fixed rates between 4.94% to 4.96%.

On May 3, 2007, Cooper terminated two $125 million floating-to-fixed interest rate swaps that were set to mature on February 7, 2008. The Company received a total of $3.2 million from the counterparties as a result of these swap terminations and used the proceeds to reduce our outstanding debt. The Company realized a gain of approximately $2.4 million that will be amortized from other comprehensive income (OCI) to interest expense over the original life of the interest rate swaps.

Effectiveness testing of the hedge relationship and measurement to quantify ineffectiveness is performed at the end of each fiscal quarter using the hypothetical derivative method. The interest rate swaps have been and are expected to remain highly effective for the life of the hedges. As of July 31, 2007, the fair value of the outstanding swaps, approximately $0.5 million, was recorded as an asset and the effective offset is recorded in OCI in our Consolidated Balance Sheet. During the nine months ended July 31, 2007, approximately $1.1 million of effective gains were amortized from OCI to interest expense. Effective amounts are amortized to interest expense as the related hedged expense is incurred. As of July 31, 2007, we estimated that approximately $2.1 million will be amortized during fiscal year 2007. During the nine months ended July 31, 2007, approximately $0.2 million of ineffective gains were reclassified from OCI to interest expense.

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

On January 31, 2007, Cooper refinanced its existing $750 million syndicated bank credit facility, with a $650 million syndicated Senior Unsecured Revolving Line of Credit (Revolver) and $350 million aggregate principal amount of 7.125% Senior Notes. As part of this new debt structure, the Company terminated an interest rate swap with a notional value of $125 million on January 30, 2007. This interest rate swap was set to mature on February 7, 2009. The Company settled the interest rate swap and received $1.1 million from the respective counterparty. As a result of the termination of this interest rate swap, the Company realized a gain of approximately $1 million. The Company will amortize this gain from OCI to interest expense over the original life of the interest rate swap.

Note 8. Earnings Per Share

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
	(In thousands, except for per share amounts)			
Net income	$ 8,180	$ 20,977	$ 13,001	$ 52,632
Add interest charge applicable to convertible debt, net of tax	523	522		1,567
Income for calculating diluted earnings per share	$ 8,703	$ 21,499	$ 13,001	$ 54,199
Basic:				
Weighted average common shares	44,778	44,531	44,664	44,516
Basic earnings per common share	$ 0.18	$ 0.47	$ 0.29	$ 1.18
Diluted:				
Weighted average common shares	44,778	44,531	44,664	44,516
Effect of dilutive stock options	417	361	418	508
Shares applicable to convertible debt	2,590	2,590		2,590
Diluted weighted average common shares	47,785	47,482	45,082	47,614
Diluted earnings per common share	$ 0.18	$ 0.45	$ 0.29	$ 1.14

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

	Three Months Ended July 31,		**Nine Months Ended July 31,**	
	2007	**2006**	**2007**	**2006**
Stock options to purchase common stock	3,159,533	2,128,383	3,187,533	2,088,383
Exercise prices	$ 53.52-$80.51	$ 47.42-$80.51	$ 52.40-$80.51	$ 53.52-$80.51
Number of common shares applicable to convertible debt			2,590,090	

Note 9. Share-Based Compensation Plans

The Company has two share-based compensation plans, which include stock options and restricted stock awards. The 2007 Long-Term Incentive Plan, as amended (2007 LTIP) and the 2006 Long-Term Incentive Plan for Non-Employee Directors (2006 Directors Plan) are the only plans with stock awards currently available for grant as of July 31, 2007. The 2007 LTIP has replaced the Second Amended and Restated 2001 Long-Term Incentive Plan (2001 LTIP), which expired in December 2006 by its terms. The 2006 Directors Plan has replaced the 1996 Long-Term Incentive Plan for Non-Employee Directors (1996 Directors Plan), which expired in November 2005 by its terms.

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Share-Based Compensation

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
	(In millions)			
Selling, general and administrative expense	$ 3.4	$ 2.5	$ 12.8	$ 10.4
Cost of sales	0.5	0.2	1.1	0.4
Research and development expense	0.2	0.1	0.6	0.3
Restructuring costs			0.8	
Capitalized in inventory	0.5	(0.1)	1.5	0.5
Total compensation expense	$ 4.6	$ 2.7	$ 16.8	$ 11.6
Related income tax benefit	$ 0.9	$ 0.5	$ 4.0	$ 2.6

Cash received from options exercised under all share-based payment arrangements for the three and nine months ended July 31, 2007, was $2.7 million and $7.6 million, respectively. Cash received from options exercised under all share-based payment arrangements for the three and nine months ended July 31, 2006, was $31,000 and $2.5 million, respectively.

Details regarding the valuation and accounting for stock options follow.

The fair value of each share-based award granted after the adoption of SFAS 123R is estimated on the date of grant using the Black-Scholes option valuation model and fair value assumptions. The expected life of the awards is based on the observed and expected time to post-vesting forfeiture and/or exercise. Groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected volatility is based on implied volatility from publicly-traded options on the Company s stock at the date of grant, historical implied volatility of the Company s publicly-traded options, historical volatility and other factors. The risk-free interest rate is based on the continuous rates provided by the U.S. Treasury with a term equal to the expected life of the option. The dividend yield is based on the projected annual dividend payment per share, divided by the stock price at the date of grant.

The fair value of each option award granted during the three and nine months ended July 31, 2007 and 2006 was estimated on the date of grant using the Black-Scholes option valuation model and weighted-average assumptions in the following table.

22

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
Expected life	2.8 yrs.	4.42 yrs.	2.71 to 5.16 yrs.	3.56 to 5.16 yrs.
Expected volatility	30.4%	30.2%	29.3% to 30.4%	29.5% to 30.8%
Risk-free interest rate	4.73%	4.38%	4.47% to 4.83%	4.37% to 4.52%
Dividend yield	0.09%	0.09%	0.09% to 0.117%	0.09%

The status of the Company s stock option plans at July 31, 2007, is summarized below:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at October 31, 2006	4,988,468	$ 52.73		
Granted	167,400	$ 56.68		
Exercised	(244,168)	$ 30.97		
Forfeited or expired	(83,250)	$ 66.98		
Outstanding at July 31, 2007	4,828,450	$ 53.72	6.02	$
Vested and exercisable at July 31, 2007	2,067,734	$ 41.11	5.56	$ 19,571,141

The weighted-average fair value of each option granted during the three and nine months ended July 31, 2007, estimated as of the grant date using the Black-Scholes option pricing model, for the 2007 LTIP was $12.76 and $12.01, respectively. For the 2001 LTIP and for the Directors Plans, there were no options granted during the three months ended July 31, 2007. The weighted-average fair value of each option granted during the nine months ended July 31, 2007, estimated as of the grant date using the Black-Scholes option pricing model, for the 2001 LTIP and Directors Plans was $10.61 and $20.36, respectively. The total intrinsic value of options exercised during the three months and nine months ended July 31, 2007 was $1.3 million and $4.6 million, respectively. The expected requisite service periods for options granted in both the three and nine months ended July 31, 2007, for employees was 33 months. Directors options and restricted stock grants are expensed on the date of grant as the 2006 Directors Plan does not contain a substantive future requisite service period.

Stock awards outstanding under the Company s current plans have been granted at prices which are either equal to or above the market value of the stock on the date of grant. Options granted under the 2007 LTIP and the 2001 LTIP generally vest over three and one-half to five years based on market and service conditions and expire no later than ten years after the grant date. Options granted under the 2006 Directors Plan and the 1996 Directors Plan generally vest in five years or upon achievement of a market condition and expire no later than ten years after

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

the grant date. Effective November 1, 2005, the Company generally recognizes compensation expense ratably over the vesting period, except for the directors, as they are expensed on the date of grant. As of July 31, 2007, there was $28.8 million of total unrecognized compensation cost related to nonvested options, which is expected to be recognized over a remaining weighted-average vesting period of 2.98 years.

Note 10. Income Taxes

Cooper s effective tax rate (ETR) (provision for income taxes divided by pretax income) for the nine months ended July 31, 2007 was 33.3 percent. Accounting principles generally accepted in the United States of America (GAAP) require that the projected fiscal year ETR, plus any discrete items, be included in the year-to-date results. The ETR used to record the provision for income taxes for the nine-month period ended July 31, 2006, was 12.3 percent. The increase in the 2007 ETR reflects certain expenses associated with the Ocular integration plan impacting jurisdictions with lower tax rates and changes in the geographic mix of annual pretax income.

Note 11. Employee Benefits

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

Cooper s results of operations for the three and nine months ended July 31, 2007 and 2006 reflect the following pension costs.

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
	(In thousands)			
Components of net periodic pension cost:				
Service cost	$ 714	$ 761	$ 2,143	$ 2,262
Interest cost	453	398	1,359	1,184
Expected returns on assets	(458)	(420)	(1,374)	(1,261)
Amortization of prior service cost	7	7	22	21
Amortization of transition obligation	7	7	20	21
Recognized net actuarial loss	43	109	128	334
Net periodic pension cost	$ 766	$ 862	$ 2,298	$ 2,561

The Company contributed $4.5 million to its pension plan during the fiscal third quarter of 2007.

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 12. Cash Dividends

We paid a semiannual dividend of approximately $1.3 million or 3 cents per share on January 5, 2007, to stockholders of record on December 15, 2006. We paid another semiannual dividend of approximately $1.3 million or 3 cents per share on July 5, 2007, to stockholders of record on June 13, 2007.

Note 13. Contingencies

Legal Proceedings

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

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

The lead plaintiff filed a consolidated complaint on July 31, 2006. The consolidated complaint was filed on behalf of all purchasers of the Company s securities between July 28, 2004, and December 12, 2005, including persons who received Company securities in exchange for their shares of Ocular in the January 2005 merger pursuant to which the Company acquired Ocular. In addition to the Company, Messrs. Bender, Weiss, and Fruth, the consolidated complaint names as defendants several of the Company s other current officers and directors and one former officer. On July 13, 2007, the Court granted Cooper s motion to dismiss the consolidated complaint and granted the lead plaintiff leave to amend to attempt to state a valid claim.

On August 9, 2007, the lead plaintiff filed an amended consolidated complaint. As before, the amended consolidated complaint was filed on behalf of all purchasers of the Company s securities between July 28, 2004, and December 12, 2005, including persons who received Company securities in exchange for their shares of Ocular in the January 2005 merger pursuant to which the Company acquired Ocular. In addition to the Company, the amended consolidated complaint names as defendants Messrs. Bender, Weiss, Fruth, Steven M. Neil, the Company s Executive Vice President and Chief Financial Officer, and Gregory A. Fryling, CooperVision s former President and Chief Operating Officer.

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

The amended consolidated complaint purports to allege violations of Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 by, among other things, contending that the defendants made misstatements concerning the *Biomedics* product line, sales force integration following the merger with Ocular, the impact of silicone hydrogel lenses and financial projections. The amended consolidated complaint also alleges that the Company improperly accounted for assets acquired in the Ocular merger by improperly allocating $100 million of acquired customer relationships and manufacturing technology to goodwill (which is not amortized against earnings) instead of to intangible assets other than goodwill (which are amortized against earnings), that the Company lacked appropriate internal controls and issued false and misleading Sarbanes-Oxley Act certifications.

On September 5, 2007, the Company and the individual defendants moved to dismiss the amended consolidated complaint. The Company intends to vigorously defend this matter.

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

On September 11, 2006, plaintiffs filed a consolidated amended complaint. The complaint purports to allege causes of action for breach of fiduciary duty, insider trading, breach of contract, and unjust enrichment, and largely repeats the allegations in the class action securities case, described above. The Company and the individual defendants have yet to respond to the consolidated amended complaint. By court order, the response date has been deferred until resolution of motions to dismiss filed in the putative securities class action matter.

In addition to the derivative action pending in federal court, three similar purported shareholder actions were filed in the Superior Court for the State of California for the County of Alameda. These actions have been consolidated under the heading In re Cooper Companies, Inc. Shareholder Derivative Litigation, Case No. RG06260748. A consolidated amended complaint was filed on September 18, 2006. On November 29, 2006, the Superior Court for the County of Alameda entered an order staying the action pending the resolution of the federal derivative action.

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

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

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

After a lengthy process of discovery and negotiation involving the Tax Court and the IRS Appeals Office, a settlement was reached with the IRS and a final Tax Court decision was entered on April 18, 2007, for a settlement amount of $3.5 million plus interest. The liability was previously fully reserved and paid on June 27, 2007.

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

On April 10, 2006, CVI filed a lawsuit against CIBA Vision (CIBA) in the United States District Court for the Eastern District of Texas alleging that CIBA is infringing United States Patent Nos. 6,431,706, 6,923,538, 6,467,903, 6,857,740 and 6,971,746 by, among other things, making, using, selling and offering to sell its O2Optix line of contact lenses. On June 5, 2006, CIBA filed an answer denying infringement and asserting certain affirmative defenses. On July 16, 2007, the Court issued a Markman order construing certain claim terms of the patents. The Court has set a trial date of January 8, 2008.

On April 11, 2006, CVI filed a lawsuit against CIBA in the United States District Court for the District of Delaware seeking a judicial declaration that CVI s *Biofinity* line of silicone hydrogel contact lenses does not infringe any valid and enforceable claims of United States Patent Nos. 5,760,100, 5,776,999, 5,789,461, 5,849,811, 5,965,631 and 6,951,894. On July 5, 2006, CIBA

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

answered the complaint by denying the allegation that CVI s *Biofinity* line of silicone hydrogel contact lenses does not infringe any valid and enforceable claims of the foregoing patents. The answer also asks the Court for permission to interpose a counterclaim for infringement in the future if, after examination of the lenses, CIBA believes they infringe the foregoing patents, which counterclaim would seek both damages and injunctive relief. The Court has set a trial date of October 6, 2008.

On November 21, 2006, CVI filed a lawsuit against CIBA in the United States District Court for the Eastern District of Texas alleging that CIBA is infringing United States Patent Nos. 7,134,753 and 7,133,174 by, among other things, making, using, selling and offering to sell its O2Optix toric line of contact lenses. On December 11, 2006, CIBA filed an answer denying infringement and asserting certain affirmative defenses. On July 16, 2007, the Court issued a Markman order construing certain claim terms of the patents. The Court has set a trial date of January 8, 2008.

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

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

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

Table of Contents

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Consolidating Condensed Statements of Income

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidating Entries	Consolidated Total
Three Months Ended July 31, 2007					
Net sales	$	$ 122,160	$ 170,438	$ (40,736)	$ 251,862
Cost of sales		56,277	105,421	(55,760)	105,938
Gross profit		65,883	65,017	15,024	145,924
Operating expenses	7,502	55,603	59,543	(382)	122,266
Operating income (loss)	(7,502)	10,280	5,474	15,406	23,658
Interest expense	11,085				11,085
Other income (expense), net	12,289	(8,172)	(3,605)		512
Income (loss) before income taxes	(6,298)	2,108	1,869	15,406	13,085
Provision for (benefit from) income taxes	(1,584)	(576)	7,065		4,905
Net income (loss)	$ (4,714)	$ 2,684	$ (5,196)	$ 15,406	$ 8,180

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidating Entries	Consolidated Total
Nine Months Ended July 31, 2007					
Net sales	$	$ 343,998	$ 404,786	$ (51,967)	$ 696,817
Cost of sales		155,008	206,025	(66,507)	294,526
Gross profit		188,990	198,761	14,540	402,291
Operating expenses	24,942	158,416	170,099	(1,117)	352,340