FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third-quarter 2011 Cooper Companies, Inc. earnings conference call. My name is Amicia and I will be the operator for today.

At this time all participants are in a listen-only mode. We will conduct a question-and-answer session toward the end of the conference. (Operator Instructions)

I would now like to turn the call over to Ms. Kim Duncan. Please proceed.

Kim Duncan - *Cooper Companies, Inc. - Director, IR*

Good afternoon, and welcome to The Cooper Companies third-quarter 2011 earnings conference call. I am Kim Duncan, Director of Investor Relations.

And joining me on today's call are Bob Weiss, President and Chief Executive Officer; Gene Midlock, Senior Vice President and Chief Financial Officer; and Al White, VP, Investor Relations, Treasurer and Chief Strategic Officer.

Before we get started, I would like to remind you that this conference call contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 including all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market conditions and integration of any acquisitions. Forward-looking statements necessarily depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties.

Events that could cause our actual results and future actions of the Company to differ materially from those described in forward-looking statements are set forth under the caption forward-looking statements in today's earnings release and are described in our SEC filings including the business section of Cooper's Annual Report on Form 10-K. These are publicly available and on request from the Company's investor relations department.

Now, before I turn the call over to Bob, let me comment on the agenda. Bob will begin by providing highlights on the quarter followed by Gene who will then discuss the third-quarter financial results.

We will keep the formal presentation to roughly 30 minutes and then open up the call to questions. We expect the call to last approximately one hour.

We request that anyone asking questions please limit yourself to one question. Should you have any additional questions, please call our investor line at 925-460-3663 or e-mail ir@cooperco.com.

As a reminder, this call is being webcast and a copy of the earnings release is available through the investor relations section of the Cooper Companies website. And with that, I will turn the call over to Bob for his opening remarks.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

Thank you, Kim, and good afternoon and evening, everyone. Another great quarter, the momentum continues.

For the third fiscal quarter, we put up stellar topline growth of 19%, 12% in constant currency. We delivered $351 million in revenue. Excluding the Avaira Toric voluntary limited recall impact, our gross margin was 62%. Strong topline, solid margins, lower interest expense lifted our non-GAAP earnings per share 26% to $1.15.

GAAP earnings per share were $0.78 hurtling the recall, a $14 million charge and the acquisition accounting reversal, an entry of $6 million, I'll let Gene get into that in a little bit. We had yet another outstanding cash flow quarter paying down $108 million of debt supported by $68 million of free cash flow.

Key takeaways for today's call. We again put up great results with strong revenue growth, good margins, favorable impact of lowering interest expense and a great bottom line. While still early, the impact on revenue of our launch of Biofinity Multifocal, Biofinity in Japan has aided our double-digit growth.

Our $68 million of free cash flow was a strong contributor to reducing our debt to cap to below 20%. Today our debt is $445 million and it's less than one half of where it was 2.5 years ago. We have delivered all this, yet we continue to invest in our future, our pipeline, our plans and most valuable of all, our people.

For the quarter, our investment in sales force expansion and R&D saw increases for these expenses of 34% and 37% respectively above the prior year. Without giving away too much proprietary data, our sales force expansion activities are up 33% since the beginning of last year. Our R&D staff has grown 25% during the same period.

Our silicon hydrogel family, Biofinity and Avaira, is driving growth. During the third quarter, this family achieved $92 million in revenue, that is a 47% increase in constant currency year over year against the third quarter of last year.

Silicon hydrogel sales are now 31% of CooperVision's revenue. Aside from the voluntary limited recall of Avaira Toric, all of our silicon hydrogels are performing well -- Biofinity Sphere, Biofinity Toric, Biofinity Multifocal as well as Avaira Sphere.

Importantly our silicon hydrogel revenues are just starting to reflect some of the impact of our launch into the $150 million silicon hydrogel multifocal market which is about 50% of the total multifocal market as well as the $400 million Japanese silicon hydrogel market. Both launches happened mid in the third quarter.

Geographically, foreign exchange played a positive role on a global scale. Excluding foreign exchange effects, we had very respectable growth in each region. Americas was up 6% constant currency, EMEA was up 11%, Asia Pac 24%, and worldwide 11% growth.

In constant currency, regional drivers were in the Americas trading up silicon hydrogel lenses, in EMEA growth in silicon hydrogel as well as the solid growth of toric. In Asia-Pacific, growth related to the Aime acquisition done in the first quarter this year as well as solid single-use particularly with Proclear 1 Day and while yet early in the game, the Biofinity launch into Japan.

The soft contact lens market is trending where we predicted, in that 4% to 6% range. The second calendar quarter was 4%, trailing 12 months is 5%.

The market was up 4% and CooperVision was up 9% in the calendar second quarter. Clearly our growing at two times the market in the second quarter was sponsored by our silicon hydrogels being up 47% versus market growth for silicon hydrogels of 11%.

We are gaining share and trading up. The market growth has seen one-day go up 8% constant currency, toric up 8%, and of course the silicon hydrogel growth of 11%. Recall the market remains a trade-up market. Trade-ups for silicon hydrogel are roughly 20% to 40% and for one-days the trade-up is roughly 3 to 5 times as much revenue per patient.

Torics or specialty lenses are also supporting solid gains, up 8% as these lenses are less penetrated in the market outside the United States. A strong performance in the Americas reflects the fact that one-day lenses are catching on. They now reflect almost 18% of the region which was only about 10 to 11% not too many years ago.

CooperSurgical, our women's healthcare franchise, had another in a string of great quarters. With $53 million in revenue, it was up 14% and 12% excluding acquisitions. Drivers include surgical procedures, hospital and same-day surgery where revenue was up 29% and now accounts for 39% of CooperSurgical's revenue.

Fertility also turned in double-digit revenue growth, up 12%. CooperSurgical continues to impress with a solid gross margin of 65% and operating margins of 24%.

With multiple call points salesforces, a strong centralized campus in Trumbull, Connecticut and a $200 million annualized revenue franchise surrounding the OB/GYN professional, this business is very leverageable. On this note, this week we added a business in Colorado called [Summit Doppler].

Summit, a supplier to us, has revenues of around $8 million annualized. It makes both obstetrical and vascular ultrasound doppler systems.

In addition to a strong product portfolio, Summit brings us strong engineering, electrical engineering expertise that can be used to upgrade several of our older products. We paid $16 million and expect the deal to be neutral to earnings in year number one and accretive thereafter.

Guidance. Given the strength of our third-quarter showing, we again increased all but our GAAP earnings per share. Our revised revenue guidance is now $1,320,000,000 to $1,335,000,000, increasing our bottom end of the guidance by $40 million from our second-quarter earnings call guidance that we had recently given.

For the fiscal year, revenue has been increased at CooperVision to $1.117 billion to $1.127 billion. The guidance takes into account the impact of our recent voluntary limited recall.

CooperSurgical revenues for the fiscal year were raised by $3 million to a range of $203 million to $208 million. Reflecting another solid earnings quarter, our non-GAAP earnings per share guidance for the year has again been increased now to the range of $4.20 to $4.25.

Given we started the fiscal year with guidance at $3.30 - $3.50, you can imagine how good we're all feeling about the progress we have made this year. Our GAAP earnings per share guidance reflects the voluntary limited recall and reversal of an accounting acquisition gain recorded in the first quarter and is now $3.67 to $3.72.

After delivering over $68 million in free cash flow in the third quarter, we again increased our guidance here for the fiscal year to a new range of $200 million to $220 million of free cash flow. Our improvement this year starts at the topline.

Delivering topline growth was made easier by great products, great employees and building out our capacity. Our recent entree in the third quarter into the $150 million silicone hydrogel multifocal market and the $400 million Japanese silicone hydrogel market is keeping our momentum going and in both cases we have only just begun.

Looking beyond 2011, we expect to continue to gain share in soft contact lenses and to start leveraging some of our recent investments in the salesforce expansion and R&D towards the back half of 2012. The bottom line is we expect to increase our earnings per share at low double-digit rates in fiscal year 2012.

Strategy we have continued unabated. We believe it is a solid strategy and it has delivered solid results. CooperSurgical is putting up outstanding results and is leveraging operating ratios. This franchise was built with a solid understanding of the value of critical mass in a women's healthcare market targeting OB/GYN.

We follow the professional wherever they go -- at the office, surgery center, hospital or IVF centers. Although the call points are different for each, the leverage is considerable. CooperSurgical third quarter gross profit was 65%, operating margins 24% and due to minimal CapEx requirements, CooperSurgical is a significant contributor to free cash flow.

We are dedicated to the strategy and we will continue tuck-in acquisitions to leverage CooperSurgical structure. At CooperVision the strategy is more complex and is much more global in nature.

In the $6.7 billion soft contact lens industry, because of the uniqueness of our manufacturing platform and product portfolio, we are the only participant that follows a complex strategy which means we are the only company that can promote silicone hydrogel and non-silicone hydrogel lenses, in this case, the Proclear family.

We emphasize branded as well as non-branded products. But private label does not mean lower price.

We actively promote and specialize in custom lenses with a high gross margin of course. We support all modalities that the eye care professional prescribes -- one day, two weeks as well as monthly lenses.

And we support all types of lenses -- spheres, torics and multifocals. At close to 30% share in the specialty contact lenses, torics and multifocals, it is acknowledged that we're pretty good at specialty lenses.

Few would challenge why the success of Biofinity Toric for astigmatism. Put a great design together with a great material and great things can happen.

We have very high expectations for this same reason that Biofinity Multifocal which hit the market mid-quarter will also be a success. Here while early, results are meeting expectations.

On the capacity front with the exception of Avaira Toric, things are ahead of plan to deliver considerably more product where we have been supply constrained. The Biofinity family, Proclear one-day, one-day torics are all ramping up nicely. So we're no longer supply constrained in this area.

On pricing, like the soft contact lens industry, we have a trade-up strategy. Our new wares and existing wares are targeted for silicone hydrogel lenses.

The Proclear family and the one-day or single-use lenses. Each creates more revenue per wearer. A one-day modality for example results in three to five times more revenue per wearer. While this strategy sacrifices the gross profit margin percent, it generally creates two to four times more profit per wearer.

Of course this strategy also competes head-on with the lens care space, that is since we are shifting the wearer's cost from lens care to contact lenses. In my opinion, we also continue to be the most focused company in the industry, lacking many of the distractions that some of our competitors are now going through. I might add with Biofinity, Avaira and Proclear, we have a lot to talk about with the eye care professionals around the world.

And so in summary before I turn it over to Gene, third-quarter 2011 continued bringing pleasant surprises. We again delivered on the topline, gross profit percent, OI percent, non-GAAP earnings per share, free cash flow and on deleveraging as well as value enhancing projects like capacity expansion.

Our silicone hydrogel family of products are doing great, up 47% in constant currency during the quarter. Our rollout into the $150 million silicone hydrogel market and the $400 million Japanese silicone hydrogel market while still early are meeting expectations. Our CooperSurgical tuck-in strategy has consistently delivered over the period of five years and achieved solid growth for 10 years plus.

With over 30 acquisitions and integrations under its belt, few would question that CooperSurgical achieved its synergies post acquisition. Our non-GAAP earnings per share results of $1.15 were up an impressive 26% versus a solid third quarter 2010.

We paid down over $100 million of debt just during the third quarter alone, bringing our debt to cap to below 20%. We now have cut debt more than in half over the last 2.5 years.

As always, we remind you our people are our number one asset. They delivered. Our mission is to keep our employees healthy and productive.

We owe them yet another tremendous thank you for all the great accomplishments they've had as well as their loyalty to Cooper. And with that, I will turn it over to Gene who will impress you with some of his numbers.

Gene Midlock - *Cooper Companies, Inc. - CFO*

Thank you, Bob. Good afternoon, everyone. Thanks for joining us again.

As Bob indicated, I will provide a brief review of the financial statement highlights. I think Bob covered the revenue aspects pretty well, so I'll start with gross margin.

Consolidated GAAP gross margin was 58% compared to 60% in Q3 last year. Non-GAAP gross margin was 62%, the same as Q3 last year. The main difference was attributable to the voluntary Avaira Toric limited recall.

Without the recall, gross margin would have been 62%. CooperVision reported a GAAP gross margin of 56% versus 58% in Q3 last year. On a non-GAAP basis, gross margin was 61%, the same as last year. Again the difference is generally attributable to the inventory recall previously mentioned and the Norfolk restructuring cost in the prior year.

CooperSurgical had GAAP and non-GAAP gross profit margin of 65%, was slightly lower than the 66% it had last year in Q3. This year-over-year decrease was a result of a one-time favorable settlement with a vendor last year offset by manufacturing efficiencies and favorable product mix including higher margin products used in surgical procedures.

Turning to SG&A, in Q3 GAAP and non-GAAP selling, distribution, customer service and marketing expenses increased by 23% from Q3 last year and they were 28% of revenue, the same as last year. This was generally attributable to the increased investment in our sales force as we mentioned to you in prior quarters.

GAAP G&A expenses increased by 12% and non-GAAP by 13% from the prior year and were 10% of revenue, the same as last year. Again this increase was basically attributable to the acquisitions that we made during the year which of course brings more general and administrative expenses.

In Q3, R&D increased by 37% from Q3 last year to approximately $12 million and were 3% of revenue, the same as last year. This increase is attributable to additional staffing and costs associated with increased clinical trials for a variety of new projects.

As we mentioned in the press release, in Q1 we reported a $6.1 million gain from the settlement of a pre-existing unfavorable contractual relationship in connection with the purchase of certain assets of Aime. This gain was excluded from our Q1 non-GAAP results.

Subsequently, we determined an error had been made in the interpretation of technical accounting literature pertaining to business combinations. No gain or loss should've been recorded as a result of a settlement of the pre-existing relationship. Accordingly we had reversed the gain in Q3 with an offsetting adjustment to goodwill.

Similar to the treatment of this item in Q1, the resulting charge is excluded from our Q3 non-GAAP results. For the full year, this item will not have an impact to the P&L.

As a result of the various items I mentioned, operating margin on a GAAP basis for Q3 was 13% of revenue, a decrease from 17% in Q3 last year. On a non-GAAP basis, operating margin was 19% of revenue, slightly down from 20% in Q3 last year.

CooperVision had an operating margin of 14% on a GAAP basis, down from 19% last year and 21% on a non-GAAP basis, a slight decrease from 22% in Q3 last year. CooperSurgical's GAAP operating margin was 24%, down from 25% last year and its non-GAAP operating margin was 24%, slightly off from 26% last year.

Interest expense decreased by 63% to $3.2 million in Q3 last year as a result of reduced borrowings and lower interest rates.

On a GAAP basis in Q3, the effective tax rate was 11.4% versus 9% last year. On a non-GAAP basis, the Q3 effective tax rate was 11.2% versus 16.2% last year. The non-GAAP tax rate decreased from last year largely because shift in income to lower tax jurisdictions as well as decreasing tax rate in certain non-US jurisdictions like the UK which dropped its corporate rates from 28% to 26%. For the full year, we expect the effective tax rate to still be in the 10% to 12% range consistent with our previously provided estimate.

Depreciation was $19.9 million in Q3 including $477,000 of accelerated depreciation and amortization was $5.5 million for a total of $25.4 million non-cash expense. In Q3 earnings per share as Bob mentioned were $0.78 on a GAAP basis and $1.15 on a non-GAAP basis. As you all know, in the earnings release the main difference is attributable to costs associated with the elimination of the gain on the Aime acquisition and the voluntary inventory recall.

Turning to the balance sheet, Q3 we had $87 million of operating cash flow and $19 million of CapEx which resulted in $68 million of free cash flow. Total debt was reduced by $108 million to $445 million and debt as a percentage of capitalization as Bob mentioned is now 19%, down from 29% in Q3 last year.

At quarter end, the ratio of funded debt to EBITDA was 1.26, a decrease from 1.61 in Q2 this year. Inventories decreased by $6 million from last quarter largely attributable to the recall with 4.9 months on hand down from 5.9 months on hand in Q3 last year. Without the recall, months on hand would have been 5.7. Accounts receivable were also closely monitored with DSOs at 55 days down from 57 days in Q3 of last year.

With that, I will turn the program back over for the question-and-answer period.

Kim Duncan - *Cooper Companies, Inc. - Director, IR*

Operator, we are ready to take some calls.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Thank you very much for taking my question. It's obvious you're gaining market share. Who do you think you're taking share from and do you think it is sustainable?

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

Joanne, I think the way I see it is historic company that's given up market share the last couple of years has been primarily Bausch & Lomb. There have been periods of time when Johnson & Johnson or VISTAKON has given up some share and then there have been periods where they've gained it back. Likewise with CIBA VISION which is going through some integration activities right now. But I think net, net, net, the big share gains are at the expense of Bausch & Lomb.

Do we think it's sustainable? I think given the products that we have just rolled out around the world, a lot of which were really early in the cycle, and particularly when I talk about the entry into the $150 million multifocal market for silicone hydrogel as well as in the $400 million Japanese market, I think we have enough fresh products in the marketplace to continue to gain share going forward.

Operator

Laurence Keusch, Morgan Keegan.

Unidentified Participant

This is actually Constantine for Larry. So, I was wondering if you guys can elaborate on your strategy in entering the silicone hydrogel market in Japan just given you're no longer capacity constrained. And also another just question in terms of if you can comment on what are your -- as you start to think about 2012, what are some of the priorities and strategic things you guys are working on?

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

As far as entering Japan now that we are no longer capacity constrained, you may remember I said we came into this year capable of supporting a $200 million product line for Biofinity, the entire family, and we would exit this year capable of supporting $400 million. We've now already arrived at that level where we can support a $400 million run rate.

So, in that sense, it really gets down to the mechanics of getting it all out the door in the local countries we're talking about. So there's obviously a lot of logistics there.

But when it comes to in Japan, we are two-tiering that. We have both the CVJ which is our legal entity that we have in place of CooperVision Japan that has been marketing and is a large business in Japan, has number two market share in the one-day space which we've basically have been fairly aggressive on in the last three, four or five years.

The other thing, you may recall we bought Aime at the beginning of the year. They had strength in channels out to the eyecare professional whereas our strength in CooperVision Japan was larger chains and a little different than the US model or exactly opposite the US model in some respects.

But we now have the capability to go both directions, the eye care professional as well as the chains and that is the direction we are taking both organizations which are at this junction not fully integrated, in the sales activity are promoting the product. And as I indicated, it's so far so good as we go.

As far as our strategy for 2012, it's really going to be to continue that execution in rolling out those products. We're also doing a very effective job with Proclear 1 Day particularly in the Japanese market. So there is a lot of activity going on there now. But I would say since we are so early in rolling out those products, 2012 will continue that path.

One of this year's strategies was to continue to ramp up the sales force, feet on the street. We have the product portfolio in place now between Biofinity, Avaira and Proclear and we knew we were hugely out headcounted out in the marketplace.

And so we're not saying we need to have a sales force as big as some of our competitors. We are saying we were very underindexed in a lot of parts of this country as well as the rest of the world and that's where a lot of our attention has gone. You see by virtue of the fact of the large increase in operating costs and particularly I mentioned the large increase in the sales force activity which is up 34% during the quarter and our headcount in the area of the sales force is up 33% since the beginning of last year, we expect to get a lot more mileage out of the feet on the street throughout the planet.

So that -- I think that would describe a lot of what we're going to be doing next year. I've also mentioned historically geographic expansion, that we have been aggressive in Eastern Europe in some of our expansion plans in the Czech Republic, Slovakia, as well as Poland. That will continue.

We now have a small beachhead in Mexico where we did not have any direct presence. And of course as I've mentioned in the past, we are spending this year analyzing China with the intent to figure out the best way forward in China.

And just to comment briefly on that, the expectation in China while we haven't finalized the thought process, I would expect it not to be totally different than what we did in Japan. And in Japan you may recall we had what was known as a spoke strategy where we did several different things and went down multiple paths at once. I would say China, it's probably not a one size fits all and so we will probably do multiple things, not singular things. Next question?

Operator

Chris Cooley, Stephens Inc.

Chris Cooley - *Stephens Inc. - Analyst*

Good evening and thank you for taking the question. Could you help us think a little bit about how we should think about CooperSurgical going forward?

The franchise continues to deliver very solid growth, robust operating margins. How can you really start to leverage that franchise such that it contributes more than slightly over the double-digit range there to operating profit? Thanks.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

Well, we are excited about what we've put together in CooperSurgical. And as you can see by the comments I made, we just had another acquisition that we will continue to fill in and round out that franchise both as to new products in the US, but I think importantly we're at a juncture now where we're going to be testing the rest of the world a little bit more aggressively.

We started this year in several European markets a very limited scope, but just testing the water in parallel with our local distributors that we use in those countries. We will continue to do that.

We will continue to look at -- aggressively at acquisitions. In the past we've made more than [30] acquisitions. They will be both small -- you never know if it can be even large. There are things at all levels and we frequently have talked about [three] sizes of acquisitions we keep in our radar.

As far as other things, they obviously have done a very nice job with their existing portfolio, hitting basically solid growth this quarter, double-digit growth. There are a number of products they have that they're doing very well with, turning them into small products, moving into the midsize products.

Of course at this juncture we don't have any one big product that we spent a lot of time talking about. But that -- once again I'll say that franchise is very leverageable and we will continue to leverage it.

Operator

Jeff Johnson, Robert W. Baird.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Thank you. Good evening, guys.

Bob, let me ask I guess one clarifying question and then I'll get to my officially allocated question I guess. The clarification one, just as you talked about SG&A and obviously some impressive adds on both the R&D side and on the salesforce side here over the past 12 to 18 months, in the past you've talked about fiscal 12 being the year to kind of leverage those costs.

And I think you alluded to it in your answer a couple questions ago. But is it still fair to think about 12 being a leverage year on both those line items?

And then the official question I guess, you alluded to several times in your prepared remarks about Biofinity Multifocal and your entry into Japan being very early stagess. Oftentimes in the early stages of a product launch, you get some channel fill, you get some benefits there.

But it doesn't sound like you're necessarily saying you saw those this quarter. So is it fair to to think about those kind of activities plus just the build of those products really having still some real nice growth tailwind over the next couple of quarters?

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

Yeah, I will take your last question first. On Biofinity Multifocal as well as in Japan, suffice it to say pipeline was -- had minimal impact on this quarter.

We launched really for all practical purposes the end of June in Japan and we're very early in that cycle. And the multifocal is kind of like toric in the sense of you've got to get the fitting sets out there and ramp up accordingly following the fitting sets.

So we're in -- once again very early in a rollout strategy there. I would say the impact on the third quarter is really very minimal. We'll start seeing that impact fourth quarter going forward.

As far as leverage, R&D and the salesforce expansion, I would expect that next year we will leverage overall SG&A in total. We will continue to invest and grow R&D faster than topline as we are doing this year.

And on the salesforce, there was a fair amount of ramping in the third quarter. So look for that to start to show up year over year basically in the third quarter next year.

But we have put in an infrastructure. You'll see high growth in both the first and second growth on a year-over-year basis. Just annualizing if you will what we've recently done.

Our expectation is you'll start seeing a better ratio from an operating perspective probably the back half of next year and when it comes to the bottom line operating income and net income, we still expect to improve our operating margins year over year, I said approaching 1% -- probably be a little sub 1% next year.

Operator

Steve Willoughby, Cleveland Research.

Steve Willoughby - *Cleveland Research Company - Analyst*

Thanks for taking the question. I was wondering if you could talk about gross margins in the quarter. Just wondering what the impact from currency was and possibly negatively impacting gross margin and really why we didn't see more gross margin expansion show up sequentially.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

I will jump on it and then I will let Gene add anything he would like. Drivers on the sequential performance of gross margin, think of two primary areas. Not going to get into -- there's a lot of detail and sometimes when you put it all together, it's kind of a scrambled egg.

But what jumps out quite a bit is we grew our Proclear 1 Day business 43% and that's the good news, that Proclear 1 Day is doing fabulously well in the marketplace. The bad news is some of that was trading our one-day business, some of which had a higher margin for a lower gross margin.

Proclear 1 Day is going through what I would say a ramp-up learning curve. So very much like some of our other families -- Biofinity when we ramp that up, Avaira as we ramp that up, you start off with lower gross margins, expecting to reduce costs, and that shows up on a lag basis.

We're in that modality if you will with Proclear 1 Day where we know costs have come down. Those costs coming down have yet to get to the P&L. They get there on a six-month lag basis, so we are happy with some of the reductions. But the overall mix heavily on a one-day is -- weights our gross margin trends somewhat.

The other thing is 50% of our costs are in pounds and as you know, the pound has outperformed the dollar. So there is somewhat of a lag factor of the pound coming into the P&L weighting it a bit.

Aside from that, I think there's just a whole host of little things, a bunch of little things. I'm not sure any one of them is worth a lot of airtime. Gene, I don't know if you want to add anything to that?

Gene Midlock - *Cooper Companies, Inc. - CFO*

No, I agree. I mean things like fuel prices have gone up, so your freight costs increased and so forth. There's nothing significant like we have had in prior years with significant period costs. There's just a whole host of smaller things.

Operator

Larry Biegelsen, Wells Fargo.

Larry Biegelsen - *Wells Fargo Securities - Analyst*

Thanks for taking the question. Just to clarify, Bob, did you say you expect the operating margin to improve by 1% in 2012? And then I have my official question.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

Okay, I said sub 1 meaning the first half of next year, we will get minimal leverage back half of next year. I think we're still in that range where this year we're saying 18 to 19 and expect next year we will uptick I would say between half a point and max one point.

Larry Biegelsen - *Wells Fargo Securities - Analyst*

Alright, I guess then I'll use my official question on this. Why wouldn't we see more leverage given I think you probably get 100 basis points from Norfolk for the gross margin and then you've got -- you talked about leveraging SG&A a little bit. So I guess it is a little bit surprising to see less than 1% operating margin improvement next year. Thanks.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

Yes, Larry, I would expect that if we use the 100 basis points for a moment, this year we're going to have half of that show up. So you're getting a half -- the second half next year on the gross margin side.

On the operating margin side, we're going to pick up more in the back half because we still are in an investment mode. Our operating costs this quarter were 43% of revenue overall.

And you know therefore those people we have hired -- we're seeing stronger sales uptick, obviously growing 20%, albeit half of that is currency, 11% in constant currency is solid growth. So if we're going to get -- if we're getting bang for the buck, we will continue to invest.

We will invest likewise in geographic expansion and expect some of that built into next year. I would not call next year a try to see how much you can make on the operating income line or bottom-line approach.

We continue to see opportunities out there given the product portfolio we have. We're going to push those products to see how good they are particularly now that we have added capacity in several of the areas I mentioned, the Biofinity family as well as the Avaira sphere as well as the Proclear 1 Day. We have capacity, why not push the limits?

So we're not hung up to see how much we can improve the ratio of operating income as a percentage of sales. But to answer your question, about half and half -- half cost of goods, half operating cost is how you would fill out the mosaic of a 1% improvement.

Next question?

Operator

Matthew O'Brien, William Blair.

Matthew O'Brien - *William Blair & Company - Analyst*

Thanks for taking the question. Just on the R&D side of things, it's a pretty material increase in terms of how much you're spending there.

Are you primarily focused on areas that you're already in within the contact lens market or women's health area? Or are you looking in other areas of ophthalmology? And then another question for you on the sales and marketing side of things. With the big ramp in terms of number of reps, how long does it typically take a rep to get up to kind of the average rate in terms of revenue per rep? Thank you.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

The first question on where is the R&D going, the focus is not outside of women's healthcare or soft contact lenses. So we're keeping core strategic.

There is peripherally things that are being done with comfort agents that one could say is there a pharmaceutical piece to that that the industry all is focused in on things to improve comfort. I would call that more strategic soft contact lens stuff as opposed to are we going to turn a soft contact lens into a drug delivery device for glaucoma or some new area. We're not putting our money there at this juncture.

As far as productivity of the reps, typically if you're getting someone new to the trade, new into the industry where they're getting new accounts and they're getting a new product line, that's a six months process. If you hire someone out of industry and you find them in the same region, they're productive day one pretty much. So the range goes from day one to six with probably closer to the midpoint is the right answer. Next question?

Operator

Steve Willoughby, Cleveland Research.

Steve Willoughby - *Cleveland Research Company - Analyst*

Hi, just had a follow-up question. I'm not sure if you already mentioned this, but I was wondering if you could let us know how much revenue Aime did in the quarter so we can calculate internal growth.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

Sure, Gene, do you have that? I think it's like -- $8 million of it is the GAAP number (multiple speakers)

Gene Midlock - *Cooper Companies, Inc. - CFO*

Approximately $8 million. Excluding Aime, organic growth was around 16% as reported and 8% in constant currency for CVI, Steve.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

So 8% constant currency organic growth for vision excluding currency and excluding Aime.

Operator

Amit Bhalla, Citigroup.

Unidentified Participant

This is Adam in for Amit. I just wanted to know if you had anything new on the dailies market especially for participation in Japan or are you seeing any impact from the J&J recalls?

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

Yes, were's -- the J&J recall in Japan obviously created an opportunity and I would say that's one of the reasons Proclear 1 Day worldwide is up 43%. The impact of silicone hydrogels in the one-day space, I would say the jury is still out.

When I look at -- there's what's known as health products research data, quite frankly the new fits this last quarter -- and I don't put too much weight on that type of data -- but the new fits actually declined sequentially. So it isn't like it suddenly up, up and away at this juncture.

There's a lot of muscle being put behind the one-day modality in the US and worldwide that modality continues actually to grow worldwide. And a lot of that is ebing sponsored by the movement in the US.

As I mentioned we are now up to about 18% in the Americas for the one-day modality. But that's broad based. It's moist, it's everything in that pot as opposed to being driven by the silicone hydrogel market.

The problem the silicone hydrogel market has at least short term and probably for the indefinite future is the cost structure to the consumer. The consumer unless they have a big budget and don't really have a budget, is cost conscious and this gets priced off the chart. So I think that's going to be the largest part of the limitation for the foreseeable future.

Next question?

Operator

Kim Gailun, JPMorgan.

Kim Gailun - *JPMorgan Chase & Co. - Analyst*

Hi, everybody, thanks for taking the question. I wanted to just follow up on this 2012 outlook discussion.

Just curious what type of topline growth you think you will need in order to get yourself to that low double digits on the bottom line given the operating margin discussion that we have walked through here. I guess part of the question in there is wear silicone hydrogel can go for Cooper as a percentage of sales. It seems like favorable mix shift there should have run room to run in fiscal 2012. Thank you.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

As far as topline growth, we of course haven't given guidance to that level of detail. But I would say we continue to expect the market to grow in that 4 to 6 range, maybe start moving up a little if we ever move out of a soft economy around the world.

But for now it's -- I think that 4 to 6 is good guidance. We would continue to expect to gain share particularly with our portfolio and you're right on that we have a lot of products that are all about trading up, in some cases our own customer and in some cases given the quality of those products gaining share. We think we will continue to gain wearer share out there.

So you put the two together and a solid growth in one-day, a solid growth in silicone hydrogels -- I think our ultimate portfolio in terms of mix between silicone hydrogel and non-silicone hydrogel will be weighted more towards hydrogels than the overall market. And I say that because we are actively promoting Proclear material and that of course is material that represents I think 27% or 28% of our total sales.

So as long unlike our competitors which don't really have a Proclear that they are putting a lot of emphasis behind, we're less picky about where the doctor ends up. Having said that, Biofinity and Avaira both cover the monthly space in the case of Biofinity and do it very effectively and Avaira in the two-week space.

So, we don't care necessarily which of the three win, although you know we like one-day because one-day obviously is the biggest trade-up you can get at three to five times revenue. But net, net, net we expect to grow faster than the market. We think the market will do reasonably well and if we accomplish that, it's very leverageable, we would expect double-digit earnings per share growth. Next question?

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Thank you for taking my follow-up question. Given your cash flow generation, at a certain stage you're going to face a high-class problem of what to do regarding use of cash. Do you have a target debt to cap in mind and have you thought about other uses of cash other than simply paying down debt and buying women's health companies? Thank you.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

We don't have an absolute target of debt to cap in mind. I indicated I start getting embarrassed sub 20. We are now sub 20 debt to cap and we are not limiting our scope of what we're looking for to women's healthcare.

So geographic expansion has always been on our mind in soft contact lenses. Geographic expansion is on our mind in women's healthcare. But we're not necessarily limiting ourselves just to women's healthcare.

So it's way too early with $445 million of debt for me to worry about running out of ideas. We will continue to pay down debt in the interim but don't look for us to go quiet on the acquisition front on a sustained basis anyway.

Next question?

Operator

Amit Bhalla, Citigroup.

Unidentified Participant

Thanks for taking the follow-up. I just wanted to clarify again what your gross margin targets are for next quarter. And then if you -- I know before you had said around -- you were targeting around 62%. I wanted to see if that was still accurate. And then if you had any idea on 2012, what the gross margin will look like?

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

Yes, I think we guided that this quarter would be -- the back half would be the 61% to 62% range. I don't see any reason to come off of that.

Hopefully it will be closer to 62 than 61, but that's where I think the range will come out next year. That should be moving up about 50 basis points as the target.

So probably 61.5 to 62.5 would probably be the right range to think of next year. So there will be some upticking but we will see how Japan plays out really.

Next question?

Operator

Chris Cooley, Stephens Inc.

Chris Cooley - *Stephens Inc. - Analyst*

Good evening, thanks for taking my follow-up question. I was curious on two points. One, if you could maybe quantify for us -- when we think about the fiscal Q4 how much that increase in guidance was actually dated by the recall here.

I mean obviously you have to replenish existing field inventory first and then go back out before you can expand into new accounts. Just trying to get a feel for maybe where that number could have been had you not had the recall.

And then as another quick follow-up if I can slide it in, you were taking share and getting a little bit of price at CooperSurgical on the office side during the first half of the fiscal year. Are you still seeing those same trends persisting out here in the back half? Thank you.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

First on the impact of the recall going forward, it's much more about replenishing inventory and trial sets than it is about what it's done in the market. So from a revenue perspective, not a big deal.

It is costing us the cash of replacing that inventory and it's certainly not the full $14 million but a portion of that that represents cash out the door. That is built into our guidance.

So I would say the impact is going forward, it's built into our guidance and it's not a material event. Relative to CooperSurgical and are they gaining share in the office space, they continue to gain share there in a market that is pretty flat so that their growth in that market is representative of primarily continuing to gain share.

The hospital market, the fertility market on the other hand is a different story and we're doing very handily, very nicely with those in the space in the case of fertility, it's a great space to begin with.

Next question?

Operator

Larry Biegelsen, Wells Fargo.

Larry Biegelsen - *Wells Fargo Securities - Analyst*

Hi, thanks for taking the follow-up question. Bob, maybe you can expand upon the acquisition strategy given what you said a minute ago. I mean has anything changed regarding doing non-dilutive tuck-in acquisitions? And just maybe you can clarify where you are on a daily disposable silicone hydrogel. Are you guys planning to launch one? Thanks.

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

Our acquisition strategy really is not going -- has not changed and will not change other than I'd mention that we will do small, mid, large. But relative to -- we would take dilution in some cases in the first 12 months. Most of the tuck-ins are accretive by the end of 12 months.

Relative to the daily disposable silicone hydrogel market, we are sitting on the fence so to speak watching the market and we are prepared to go within 12 to 24 months I think is what I said last call. And obviously we are taking activities that move that forward three months, so arguably nine months to year and three quarters.

But I'm not overly impressed with that market at this point in time. But it's probably one where we should participate openly anyway. So you will probably find us in it for the next couple years.

Where are we, Kim?

Kim Duncan - *Cooper Companies, Inc. - Director, IR*

I think we're at the top of the hour, so we will close it here. Any other thoughts?

Bob Weiss - *Cooper Companies, Inc. - President and CEO*

No, I want to thank everyone for joining us on the call and hopefully you're as excited about the results as we are and with that, we will look forward to giving you another update in the fourth quarter in December. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect.
