

COOPER COMPANIES INC  
Form 10-Q  
September 03, 2010  
[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, 2010

.. **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)

Edgar Filing: COOPER COMPANIES INC - Form 10-Q

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

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

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

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

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

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

Common Stock, \$.10 par value	45,663,989 Shares
Class	Outstanding at August 31, 2010

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

INDEX

	<b>Page No.</b>
<b>PART I.</b>	
<b><u>FINANCIAL INFORMATION</u></b>	
Item 1.	
<u>Financial Statements</u>	
<u>Consolidated Statements of Income - Three and Nine Months Ended July 31, 2010 and 2009</u>	3
<u>Consolidated Condensed Balance Sheets - July 31, 2010 and October 31, 2009</u>	4
<u>Consolidated Condensed Statements of Cash Flows - Nine Months Ended July 31, 2010 and 2009</u>	5
<u>Consolidated Statements of Comprehensive Income - Three and Nine Months Ended July 31, 2010 and 2009</u>	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
Item 3.	
<u>Quantitative and Qualitative Disclosure About Market Risk</u>	50
Item 4.	
<u>Controls and Procedures</u>	50
<b>PART II.</b>	
<b><u>OTHER INFORMATION</u></b>	
Item 1.	
<u>Legal Proceedings</u>	52
Item 1A.	
<u>Risk Factors</u>	54
Item 6.	
<u>Exhibits</u>	55
<u>Signature</u>	56
<u>Index of Exhibits</u>	57

**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,	
	2010	2009	2010	2009
Net sales	\$ 295,635	\$ 285,230	\$ 845,165	\$ 796,966
Cost of sales	119,649	138,835	355,923	359,380
Gross profit	175,986	146,395	489,242	437,586
Selling, general and administrative expense	111,265	100,038	323,183	288,735
Research and development expense	8,588	7,737	24,788	25,032
Restructuring costs	14	462	424	3,416
Amortization of intangibles	4,723	4,233	13,439	12,490
Operating income	51,396	33,925	127,408	107,913
Interest expense	8,729	11,085	28,684	33,372
Litigation settlement charge	0	0	27,000	0
Other income (expense), net	985	(155)	(1,174)	8,249
Income before income taxes	43,652	22,685	70,550	82,790
Provision for income taxes	3,925	777	5,945	12,360
Net income	\$ 39,727	\$ 21,908	\$ 64,605	\$ 70,430
Basic earnings per share	\$ 0.87	\$ 0.48	\$ 1.42	\$ 1.56
Diluted earnings per share	\$ 0.86	\$ 0.48	\$ 1.40	\$ 1.55
Number of shares used to compute earnings per share:				
Basic	45,605	45,180	45,459	45,164
Diluted	46,402	45,694	46,232	45,368

See accompanying notes.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

(In thousands)

(Unaudited)

	July 31, 2010	October 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,240	\$ 3,932
Trade accounts receivable, net of allowance for doubtful accounts of \$5,124 at July 31, 2010 and \$4,690 at October 31, 2009	190,055	170,941
Inventories	234,315	260,846
Deferred tax assets	29,906	23,360
Prepaid expense and other current assets	33,754	44,799
Total current assets	491,270	503,878
Property, plant and equipment, at cost	886,965	882,322
Less: accumulated depreciation and amortization	317,217	279,754
	569,748	602,568
Goodwill	1,256,488	1,257,029
Other intangibles, net	118,528	114,700
Deferred tax assets	25,725	27,781
Other assets	41,281	45,951
	\$ 2,503,040	\$ 2,551,907
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 22,298	\$ 7,051
Current portion of long-term debt	0	2,793
Accounts payable	41,951	36,878
Employee compensation and benefits	38,660	35,781
Accrued acquisition costs	2,904	3,599
Accrued income taxes	9,745	4,400
Accrued litigation settlement	27,000	0
Other current liabilities	81,618	84,912
Total current liabilities	224,176	175,414
Long-term debt	624,373	771,630
Deferred tax liabilities	15,205	16,456
Accrued pension liability and other	45,175	48,065
Total liabilities	908,929	1,011,565

Commitments and contingencies (see Note 12)

## Edgar Filing: COOPER COMPANIES INC - Form 10-Q

Stockholders' equity:		
Preferred stock, 10 cents par value, shares authorized: 1,000; zero shares issued or outstanding	0	0
Common stock, 10 cents par value, shares authorized: 70,000; issued 45,975 at July 31, 2010 and 45,572 at October 31, 2009	4,598	4,557
Additional paid-in capital	1,075,522	1,063,289
Accumulated other comprehensive loss	(33,528)	(12,920)
Retained earnings	552,324	490,451
Treasury stock at cost: 313 shares at July 31, 2010 and 328 shares at October 31, 2009	(4,805)	(5,035)
Stockholders' equity	1,594,111	1,540,342
	\$ 2,503,040	\$ 2,551,907

See accompanying notes.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended July 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 64,605	\$ 70,430
Depreciation and amortization	70,785	67,993
Accrued litigation settlement	27,000	0
Increase (decrease) in operating capital	23,851	(16,127)
Other non-cash items	16,812	22,356
<b>Net cash provided by operating activities</b>	<b>203,053</b>	<b>144,652</b>
Cash flows from investing activities:		
Purchases of property, plant and equipment, net	(40,988)	(73,942)
Acquisitions of businesses, net of cash acquired, and other	(32,442)	(4,056)
<b>Net cash used in investing activities</b>	<b>(73,430)</b>	<b>(77,998)</b>
Cash flows from financing activities:		
Net proceeds (repayments) of short-term debt	15,247	(6,147)
Repayments and repurchase of long-term debt	(504,310)	(642,157)
Proceeds from long-term debt	354,260	584,525
Dividends on common stock	(1,362)	(1,355)
Excess tax benefit from share-based compensation arrangements	407	135
Issuance of common stock for employee stock plans	5,439	(31)
<b>Net cash used in financing activities</b>	<b>(130,319)</b>	<b>(65,030)</b>
Effect of exchange rate changes on cash and cash equivalents	4	222
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(692)</b>	<b>1,846</b>
Cash and cash equivalents - beginning of period	3,932	1,944
<b>Cash and cash equivalents - end of period</b>	<b>\$ 3,240</b>	<b>\$ 3,790</b>

See accompanying notes.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2010	2009	2010	2009
Net income	\$ 39,727	\$ 21,908	\$ 64,605	\$ 70,430
Other comprehensive income (loss):				
Foreign currency translation adjustment	6,437	52,448	(29,117)	22,660
Change in value of derivative instruments, net of tax	2,175	10,452	8,948	(3,367)
Additional minimum pension liability, net of tax	(439)	0	(439)	0
Other comprehensive income (loss)	8,173	62,900	(20,608)	19,293
Comprehensive income	\$ 47,900	\$ 84,808	\$ 43,997	\$ 89,723

See accompanying notes.



**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

Note 1. General

The Cooper Companies, Inc. (Cooper, we or the Company) is a global medical products company that serves the specialty healthcare market through its two business units:

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

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

The unaudited consolidated condensed financial statements presented in this report contain all adjustments necessary to present fairly Cooper's consolidated condensed financial position at July 31, 2010 and October 31, 2009, the consolidated results of its operations for the three and nine months ended July 31, 2010 and 2009 and its consolidated condensed cash flows for the nine months ended July 31, 2010 and 2009. Most of these adjustments are normal and recurring. However, certain adjustments associated with acquisitions and the related financial arrangements are of a nonrecurring nature. Readers should not assume that the results reported here either indicate or guarantee future performance.

During interim periods, we follow the accounting policies described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2009. Please refer to this when reviewing this Quarterly Report on Form 10-Q.

Management estimates and judgments are an integral part of financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). We believe that the critical accounting policies listed below address the more significant estimates required of management when preparing our consolidated financial statements in accordance with GAAP. We consider an accounting estimate critical if changes in the estimate may have a material impact on our financial condition or results of operations. We believe that the accounting estimates employed are appropriate and resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustment to these balances in future periods. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results are:

Revenue recognition

Allowance for doubtful accounts

Net realizable value of inventory

Valuation of goodwill

Business combinations

Income taxes

Share-based compensation

During the fiscal first nine months of 2010, there were no significant changes in our estimates and critical accounting policies. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended October 31, 2009, for a more complete discussion of our estimates and critical accounting policies.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Certain prior period amounts have been reclassified to conform to the current period's presentation.

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 foreign currency forward contracts and interest rate swap agreements are financially sound and that the credit risk of these contracts is not significant, see Note 6. Derivative Instruments.

**New Accounting Pronouncements**

On November 1, 2009, the Company adopted the FASB issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversion* (FSP APB 14-1). FSP APB 14-1, which was issued in May 2008, requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer's nonconvertible debt borrowing rate. As a result, the liability component would be recorded at a discount reflecting its below market coupon interest rate, and the liability component would be accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected in the results of operations. This change in methodology affects the calculations of net income and earnings per share but will not increase the cash interest payments. FSP APB 14-1 was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Retrospective application to all periods presented is required and early adoption is prohibited. The convertible senior debentures that the Company issued in fiscal 2003 and subsequently repurchased in fiscal 2008 are within the scope of FSP APB 14-1. The Company has adjusted the reported amounts in its Consolidated Balance Sheet as of October 31, 2009 as follows:

**Consolidated Balance Sheet at October 31, 2009**

	As Reported	Adjustments (In thousands)	As Adjusted
Additional paid-in capital	\$ 1,053,662	\$ 9,627	\$ 1,063,289
Retained earnings	\$ 500,078	\$ (9,627)	\$ 490,451

**Note 2. Restructuring Costs****2009 CooperVision Manufacturing Restructuring Plan**

In the fiscal third quarter of 2009, CooperVision initiated a restructuring plan to relocate contact lens manufacturing from Norfolk, Virginia, and transfer part of its contact lens manufacturing from Adelaide, Australia, to existing manufacturing operations in Juana Diaz, Puerto Rico, and Hamble, UK (2009 CooperVision manufacturing restructuring plan). This plan is intended to better utilize CVI's manufacturing efficiencies and reduce its manufacturing expenses through a reduction in workforce of approximately 480 employees. The Norfolk plant previously manufactured about 7% of CooperVision's annual lens production; however, no additional hires are anticipated in Puerto Rico or the UK as part of this plan due to recent gains in manufacturing efficiencies.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

The Company completed restructuring activities in Adelaide, Australia, in our fiscal third quarter of 2010 and expects to complete restructuring activities in Norfolk, Virginia, in our fiscal first quarter of 2011.

We estimate that the total restructuring costs under this plan will be approximately \$24 million, with about \$17 million associated with assets, including accelerated depreciation and facility lease and contract termination costs, and about \$7 million associated with employee benefit costs, including anticipated severance payments, termination benefit costs, retention bonus payouts and other similar costs. These costs will be reported as cost of sales or restructuring costs in our Consolidated Statements of Income.

In the fiscal third quarter of 2010, \$6.7 million, including \$1.3 million of employee benefit costs and \$5.4 million of costs associated with assets, are reported as cost of sales. In the fiscal first nine months of 2010, \$12.6 million, including \$2.6 million of employee benefit costs and \$10.0 million of costs associated with assets, primarily non-cash, are reported as \$12.5 million in cost of sales and \$0.1 million in restructuring costs.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

For the fiscal year ended October 31, 2009, total costs of \$5.1 million including \$3.6 million of employee benefit costs and \$1.5 million of non-cash costs associated with assets were reported as \$5.0 million in cost of sales and \$0.1 million in restructuring costs.

	Balance at Beginning of Period	Additions Charged to Cost of Sales and Restructuring Costs	Payments and Adjustments  (In millions)	Balance at End of Period
<b>Year Ended October 31, 2009</b>				
Other current liabilities	\$	\$ 3.6	\$ 0.6	\$ 3.0
Accelerated depreciation and other		1.5	1.2	0.3
	\$	\$ 5.1	\$ 1.8	\$ 3.3
<b>Fiscal Quarter Ended January 31, 2010</b>				
Other current liabilities	\$ 3.0	\$ 0.7	\$ 0.6	\$ 3.1
Accelerated depreciation and other	0.3	1.6	1.6	0.3
	\$ 3.3	\$ 2.3	\$ 2.2	\$ 3.4
<b>Fiscal Quarter Ended April 30, 2010</b>				
Other current liabilities	\$ 3.1	\$ 1.1	\$ 1.0	\$ 3.2
Accelerated depreciation and other	0.3	2.5	2.5	0.3
	\$ 3.4	\$ 3.6	\$ 3.5	\$ 3.5
<b>Fiscal Quarter Ended July 31, 2010</b>				
Other current liabilities	\$ 3.2	\$ 1.7	\$ 2.3	\$ 2.6
Accelerated depreciation and other	0.3	5.0	3.1	2.2
	\$ 3.5	\$ 6.7	\$ 5.4	\$ 4.8

**Critical Activity Restructuring Plan**

In the fiscal first quarter of 2009, CooperVision began a global restructuring plan to focus the organization on our most critical activities, refine our work processes and align costs with prevailing market conditions (Critical Activity restructuring plan). This restructuring plan involved the assessment of all locations' activities, exclusive of direct manufacturing, and changes to streamline work processes. As a result of the Critical Activity restructuring plan, a number of positions were eliminated across certain business functions and geographic regions. The Company substantially completed the Critical Activity restructuring plan in our fiscal fourth quarter of 2009.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

The total restructuring costs under this plan were \$4.6 million, primarily severance and benefit costs, and were reported as cost of sales or restructuring costs in our Consolidated Statements of Income. In the fiscal first nine months of 2010, we reported \$0.3 million in restructuring costs. In the fiscal year ended October 31, 2009, we reported \$0.5 million in cost of sales and \$3.8 million in restructuring costs. At July 31, 2010, the total accrued restructuring liability, recorded in other accrued liabilities, was:

	Balance at Beginning of Period	Additions Charged to Cost of Sales and Restructuring Costs	Payments	Balance at End of Period
	(In millions)			
Year Ended October 31, 2009	\$	\$ 4.3	\$ 3.7	\$ 0.6
Fiscal Quarter Ended January 31, 2010	\$ 0.6	\$ 0.3	\$ 0.2	\$ 0.7
Fiscal Quarter Ended April 30, 2010	\$ 0.7	\$	\$ 0.5	\$ 0.2
Fiscal Quarter Ended July 31, 2010	\$ 0.2	\$	\$ 0.2	\$

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

Note 3. Inventories

	July 31, 2010	October 31, 2009
	(In thousands)	
Raw materials	\$ 48,114	\$ 47,400
Work-in-process	8,367	6,122
Finished goods	177,834	207,324
	\$ 234,315	\$ 260,846

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

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Note 4. Intangible Assets****Goodwill**

	CVI	CSI (In thousands)	Total
Balance as of October 31, 2008	\$ 1,044,062	\$ 207,637	\$ 1,251,699
Net reductions during the year ended October 31, 2009	(3,624)	(10)	(3,634)
Translation	8,832	132	8,964
Balance as of October 31, 2009	1,049,270	207,759	1,257,029
Net additions during the nine-month period ended July 31, 2010		9,418	9,418
Translation	(9,846)	(113)	(9,959)
Balance as of July 31, 2010	\$ 1,039,424	\$ 217,064	\$ 1,256,488

We performed our annual impairment test in our fiscal third quarter 2010, and our analysis indicated that we had no impairment of goodwill. We test goodwill for impairment annually during the fiscal third quarter and when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. We account for goodwill and evaluate our goodwill balances and test them for impairment in accordance with related accounting standards. We no longer amortize goodwill.

The 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 is determined to be less than the book value, a second step is performed to compute the amount of the impairment. A reporting unit is the level of reporting at which goodwill is tested for impairment. Our reporting units are the same as our business segments CVI and CSI reflecting the way that we manage our business.

The fair value of our reporting units was determined using the income valuation approach. Under the income approach, specifically the discounted cash flow method, the fair value of the reporting unit is based on the present value of estimated future cash flows that the reporting unit is expected to generate over its remaining life.

In the application of the income approach, the Company is required to make estimates of future operating trends and judgments on discount rates and other variables. Actual future results related to assumed variables could differ from these estimates. Discount rates are based on a weighted average cost of capital, which represents the average rate a business must pay its providers of debt and equity capital. We used discount rates that are the representative weighted average cost of capital for each of our reporting units, with consideration given to the current condition of the global economy. The discount rates used in the current year are about 200 basis points higher than those used in our analysis for fiscal year 2009 reflecting the current condition of the United States and the global economy. The Company determines net sales forecasts based on our best estimate of near term net sales expectations and long-term projections which include review of published independent industry analyst reports. As a sensitivity analysis, a 100 basis point reduction in the assumed net sales growth beginning in fiscal 2010 and extending through the valuation period would decrease the excess amount of the estimated fair value of each reporting unit over the carrying value but would not cause a change in the results of our impairment testing that indicated that we had no impairment of goodwill.

Goodwill impairment analysis and measurement is a process that requires significant judgment. If our common stock price trades below book value per share, there are changes in market conditions or a future downturn in our business, or a future annual goodwill impairment test indicates an impairment of our goodwill, the Company may have to recognize a non-cash impairment of its goodwill that could be material, and could adversely affect our results of operations in the period recognized and also adversely affect our total assets, stockholders' equity and

financial condition.



**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Other Intangible Assets**

	As of July 31, 2010		As of October 31, 2009	
	Gross Carrying Amount	Accumulated Amortization & Translation	Gross Carrying Amount	Accumulated Amortization & Translation
	(In thousands)			
Trademarks	\$ 3,022	\$ 1,133	\$ 2,907	\$ 979
Technology	105,267	50,563	91,279	43,846
Shelf space and market share	88,803	35,997	87,863	30,221
License and distribution rights and other	15,701	6,572	13,485	5,788
	212,793	\$ 94,265	195,534	\$ 80,834
Less accumulated amortization and translation		94,265		80,834
Other intangible assets, net	\$ 118,528		\$ 114,700	

We estimate that amortization expense will be about \$16.6 million per year in the five-year period ending October 31, 2014.

Note 5. Debt

	July 31, 2010	October 31, 2009
	(In thousands)	
Short-term:		
Overdraft and other credit facilities	\$ 22,298	\$ 7,051
Current portion of long-term debt		2,793
	\$ 22,298	\$ 9,844
Long-term:		
Revolver	\$ 285,000	\$ 425,000
Senior notes	339,000	339,000
Capital lease		7,207
Other	373	423
	\$ 624,373	\$ 771,630

In November 2009, we entered into a \$5.0 million overdraft facility for certain of our Asia Pacific subsidiaries. This facility is designed to replace the existing facility which has been reduced to \$1.9 million. Both facilities are supported by a continuing and unconditional guaranty by the Company. The Company will pay all forms of indebtedness in the currency in which it is denominated for those certain subsidiaries. Interest

Edgar Filing: COOPER COMPANIES INC - Form 10-Q

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 guaranties. At July 31, 2010, approximately \$1.0 million was utilized.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Note 6. Derivative Instruments**

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

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

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

The Company is also exposed to risks associated with changes in interest rates, as the interest rate on our Senior Unsecured Revolving Line of Credit (Revolver) varies with the London Interbank Offered Rate (LIBOR). To mitigate this risk, we hedge portions of our variable rate debt by swapping those portions to fixed rates.

We only enter into derivative financial instruments with institutions that have an International Swap Dealers Association (ISDA) agreement in place. Our derivative financial instruments do not contain credit risk related contingent features such as call features or requirements for posting collateral. Although the Company and its counterparties have some right of set-off, all foreign exchange derivatives are displayed gross in the fair value tabular disclosure and accounted for as such in our Consolidated Condensed Balance Sheet. We adjust our foreign exchange forward contracts and cross currency swaps for credit risk on a per derivative basis. However, when applicable, we record interest rate derivatives as net in our Consolidated Condensed Balance Sheet, in accordance with ASC 815-10, but gross in the fair value tabular disclosure. When we net or set-off our interest rate derivative obligations, only the net asset or liability position will be credit affected. For the fiscal first nine months ended July 31, 2010, and for the fiscal year ending October 31, 2009, all of our interest rate derivatives were in a liability position and, therefore, were not set-off in the Consolidated Condensed Balance Sheet. Since ISDA agreements are signed between the Company and each respective financial institution, netting is permitted on a per institution basis only. On an ongoing basis, we monitor counterparty credit ratings. We consider our credit non-performance risk to be minimal because we award and disperse derivatives business between multiple commercial institutions that have at least an investment grade credit rating.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Cash Flow Hedging**

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

ASC 815 cash flow hedge accounting allows for the gains or losses on the change in fair value of the derivatives related to forecasted transactions to be recorded in Other Comprehensive Income (OCI) until the underlying forecasted transaction occurs. However, this accounting treatment is limited to hedging specific transactions that can be clearly defined and specifically create risk to functional currency cash flow.

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

To reduce foreign currency exposure related to forecasted foreign currency denominated sales and purchases of product, the Company enters into foreign currency forward contracts; however, in fiscal 2010, we have not entered into any new forward contracts of this kind. In fiscal 2009, we entered into forward contracts of approximately \$43.0 million in the fiscal fourth quarter, \$40.0 million in the fiscal third quarter, \$250.0 million in the fiscal second quarter and none in the fiscal first quarter. These derivatives were accounted for as cash flow hedges under ASC 815 and were expected to be effective through their maturities. As of July 31, 2010, all outstanding cash flow hedging derivatives had maturities of less than 12 months.

Typical currencies traded are those which represent the largest risk for the Company, including but not limited to the British pound sterling, euro and Japanese yen. Hedge amounts vary by currency but typically fall below \$10.0 million per month per currency. Hedges for each currency mature monthly to correspond with the payment cycles of the hedged relationships. To maintain a layered hedged position, additional hedges may be placed consistently throughout the year.

Each month during any given period, adjustments are made to the existing hedges by matching them with the actual cash flows that occurred in that month. Each hedge, therefore, will require that compensating trades be adjusted to match the actual flows of the underlying exposure.

The effective portion of the cash flow hedge contracts gains or losses resulting from changes in fair value of these hedges is initially reported as a component of accumulated OCI in stockholders' equity until the underlying hedged item is reflected in our Consolidated Statement of Income, at which time the effective amount in OCI is reclassified to either net sales or cost of sales in our Consolidated Statement of Income. No ineffectiveness was recorded in fiscal 2010. Immaterial amounts of ineffectiveness were recorded during 2009. We expect to reclassify a gain of approximately \$2.0 million to the effective accounts over the next twelve months but anticipate no reclassifications thereafter.

---

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

We calculate hedge effectiveness prospectively and retrospectively, excluding time value, on a monthly basis using regression as well as other timing and probability criteria required by ASC 815. We record any ineffectiveness and any excluded components of the hedge immediately to other income or expense in our Consolidated Statement of Income. In the event the underlying forecasted transaction does not occur within the designated hedge period, or it becomes probable that the forecasted transaction will not occur, the related gains and losses on the cash flow hedges are immediately reclassified from OCI to other income or expense in our Consolidated Statement of Income. In fiscal 2010, no ineffectiveness was recorded. Immaterial amounts of ineffectiveness were recorded during the fiscal first quarter of 2009 and no ineffectiveness was recorded for the remainder of fiscal 2009.

**Balance Sheet Hedges**

We manage the foreign currency risk associated with non-functional currency assets and liabilities using foreign exchange forward contracts with maturities of less than 24 months and cross currency swaps with maturities up to 36 months. As of July 31, 2010, all outstanding balance sheet hedging derivatives had maturities of less than 12 months. The change in fair value of these derivatives is recognized in other income or expense.

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

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

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

**Interest Rate Swaps**

In fiscal 2007 and 2008, the Company entered into floating-to-fixed interest rate swaps to fix the floating rate on the Revolver. As of July 31, 2010, the swaps' notional value totaled \$175.0 million with maturities ranging from 1 month to 10 months and fixed rates between 2.53% and 4.94%. We qualified and designated these swaps under ASC 815 as cash flow hedges and recorded the offset of the cumulative fair market value (net of tax effect) to OCI in our Consolidated Condensed Balance Sheet.

Effectiveness testing of the hedge relationship and measurement to quantify ineffectiveness is performed at a minimum each fiscal quarter using the hypothetical derivative method. The swaps have been and are expected to remain highly effective for the life of the hedges. Effective amounts are reclassified to interest expense as the related hedged expense is incurred. The fair value of the outstanding swaps is shown in the Consolidated Condensed Balance Sheet and the fair value measurements and disclosures tables below. Excluded from this table are liabilities of \$1.3 million and \$2.6 million that were recorded and attributable to accrued interest as of July 31, 2010 and October 31, 2009, respectively. We expect to reclassify \$2.8 million from OCI to interest expense in our Consolidated Statements of Income over the next 12 months.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

The fair value of derivative instruments in our Consolidated Condensed Balance Sheet as of July 31, 2010 and October 31, 2009 was as follows:

	Derivative Assets			Derivative Liabilities		
	Balance Sheet Location	Fair Value 7/31/2010	Fair Value 10/31/2009	Balance Sheet Location	Fair Value 7/31/2010	Fair Value 10/31/2009
(In millions)						
Derivatives designated as hedging instruments under ASC 815						
Interest rate contracts	Prepaid expense and other current assets	\$	\$	Other current liabilities	\$ 2.8	\$ 4.1
Interest rate contracts	Other assets			Accrued pension liability and other		6.3
Foreign exchange contracts	Prepaid expense and other current assets	1.7	9.4	Other current liabilities	0.4	11.1
Foreign exchange contracts	Other assets		0.9	Accrued pension liability and other		0.7
Total derivatives designated as hedging instruments under ASC 815		\$ 1.7	\$ 10.3		\$ 3.2	\$ 22.2
Derivatives not designated as hedging instruments under ASC 815						
Interest rate contracts	Prepaid expense and other current assets	\$	\$	Other current liabilities	\$	\$
Interest rate contracts	Other assets			Accrued pension liability and other		
Foreign exchange contracts	Prepaid expense and other current assets	1.1	0.8	Other current liabilities	1.4	0.7
Foreign exchange contracts	Other assets			Accrued pension liability and other		
Total derivatives not designated as hedging instruments under ASC 815		\$ 1.1	\$ 0.8		\$ 1.4	\$ 0.7
Total derivatives		\$ 2.8	\$ 11.1		\$ 4.6	\$ 22.9

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

## The Effect of Derivative Instruments on the Consolidated Statements of Income

For the Nine Months Ended July 31, 2010 and 2009

(In millions)

**Derivatives in**

ASC 815 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative Ineffectiveness	Amount of Gain or (Loss) Recognized in Income Due to Ineffectiveness		Location of Gain or (Loss) Recognized in Income and Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income and Excluded from Effectiveness Testing	
	2010	2009		2010	2009		2010	2009		2010	2009
Interest rate contracts	\$ (1.0)	\$ (12.2)	Interest expense	\$ (8.6)	\$ (9.1)	Other income/ (expense)	\$	\$	Other income/ (expense)	\$	\$
Foreign exchange contracts	1.3	(11.1)	Net sales	(4.3)	18.9	Other income/ (expense)		(0.1)	Other income/ (expense)		1.2
Foreign exchange contracts			Cost of sales	1.3	(28.4)	Other income/ (expense)			Other income/ (expense)		
Total	\$ 0.3	\$ (23.3)		\$ (11.6)	\$ (18.6)		\$	\$ (0.1)		\$	\$ 1.2

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative (In millions)	
		Nine Months Ended July 31, 2010	2009
Interest rate contracts	Interest expense	\$	\$
Foreign exchange contracts	Other income (expense), net		(4.3)
<b>Total</b>		\$ (4.3)	\$

**Fair Value Measurements**

As of July 31, 2010 and October 31, 2009, the carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, lines of credit, accounts payable and other current liabilities approximates fair value due to the short-term nature of such instruments and the ability to obtain financing on similar terms.

On November 1, 2008, the Company adopted the required portions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 applies to all assets and liabilities that are being measured and reported at fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. An asset's or liability's level is based on the lowest level of input that is significant to the fair value measurement. ASC 820 requires that assets and liabilities carried at fair value be valued and disclosed in one of the following three levels of the valuation hierarchy:

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

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

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

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

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





**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

The following table sets forth the Company's financial assets and liabilities that were measured at fair value on a recurring basis during the fiscal first nine months of 2010, within the fair value hierarchy at July 31, 2010:

	<b>Level 2</b> <b>(In millions)</b>
<b>Assets:</b>	
Foreign exchange contracts	\$ 2.8
<b>Liabilities:</b>	
Interest rate swaps	\$ 2.8
Foreign exchange contracts	1.8
	\$ 4.6

The following table sets forth the Company's financial assets and liabilities that were measured at fair value on a recurring basis during fiscal 2009, within the fair value hierarchy at October 31, 2009:

	<b>Level 2</b> <b>(In millions)</b>
<b>Assets:</b>	
Foreign exchange contracts	\$ 11.1
<b>Liabilities:</b>	
Interest rate swaps	\$ 10.4
Foreign exchange contracts	12.5
	\$ 22.9

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 7. Earnings Per Share

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
Net income	\$ 39,727	\$ 21,908	\$ 64,605	\$ 70,430
<b>Basic:</b>				
Weighted average common shares	45,605	45,180	45,459	45,164
Basic earnings per common share	\$ 0.87	\$ 0.48	\$ 1.42	\$ 1.56
<b>Diluted:</b>				
Weighted average common shares	45,605	45,180	45,459	45,164
Effect of dilutive stock options	797	514	773	204
Diluted weighted average common shares	46,402	45,694	46,232	45,368
Diluted earnings per common share	\$ 0.86	\$ 0.48	\$ 1.40	\$ 1.55

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
Numbers of stock option shares excluded	3,587	4,014	3,587	4,505
Range of exercise prices	\$ 38.89-\$80.51	\$ 27.06-\$80.51	\$ 38.89-\$80.51	\$ 22.44-\$80.51

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

The Company has several share-based compensation plans that are described in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2009. The compensation and related income tax benefit recognized in the Company's consolidated financial statements for share-based awards were as follows:

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2010	2009	2010	2009
	(In millions)			
Selling, general and administrative expense	\$ 1.9	\$ 1.9	\$ 6.2	\$ 8.9
Cost of sales	0.1	0.3	0.5	0.9
Research and development expense	0.1	0.2	0.3	0.6
Capitalized in inventory	0.1	0.3	0.5	0.9
<b>Total compensation expense</b>	<b>\$ 2.2</b>	<b>\$ 2.7</b>	<b>\$ 7.5</b>	<b>\$ 11.3</b>
Related income tax benefit	\$ 0.6	\$ 0.9	\$ 2.5	\$ 4.0

**Note 9. Income Taxes**

Cooper's effective tax rate (ETR) (provision for income taxes divided by pretax income) for the fiscal first nine months of 2010 was 8.4%. Our year-to-date results include the projected fiscal year ETR, plus any discrete items. The ETR used to record the provision for income taxes for the fiscal first nine months of 2009 was 14.9%. The decrease in the fiscal 2010 ETR reflects the shift in the geographic mix of income as well as litigation settlement charges incurred in the United States during the period.

The Company adopted the provisions of ASC 740-10-25-5 through 25-17, *Basic Recognition Threshold*, formerly FIN 48, on November 1, 2007. Under this guidance, the Company recognizes the benefit from a tax position only if it is more likely than not that the position would be sustained upon audit based solely on the technical merits of the tax position. As of November 1, 2009, the Company had total gross unrecognized tax benefits of \$15.9 million. If recognized, \$15.4 million of unrecognized tax benefits would impact the Company's ETR. For the nine-month period ended July 31, 2010, there were no material changes to the total amount of unrecognized tax benefits. The Company historically classified unrecognized tax benefits in current taxes payable. As a result of our adoption of ASC 740-10-25-5 through 25-17, unrecognized tax benefits were reclassified to long-term income taxes payable.

Interest and penalties of \$1.2 million have been reflected as a component of the total liability as of November 1, 2009. It is the Company's policy to recognize the items of interest and penalties directly related to income taxes as additional income tax expense.

Included in the balance of unrecognized tax benefits at November 1, 2009, is \$2.5 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. This amount represents a decrease in unrecognized tax benefits related to expiring statutes in various jurisdictions worldwide and is comprised of transfer pricing and other items.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

As of July 31, 2010, the tax years for which the Company remains subject to United States Federal income tax assessment upon examination are 2005 through 2009. The Company remains subject to income tax examinations in other major tax jurisdictions including the United Kingdom, France and Australia for the tax years 2004 through 2009.

**Note 10. Employee Benefits**

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

Cooper's results of operations for the three and nine months ended July 31, 2010 and 2009 reflect the following components of net periodic pension costs:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
	(In thousands)			
Service cost	\$ 992	\$ 766	\$ 2,976	\$ 2,298
Interest cost	667	586	2,003	1,758
Expected returns on assets	(611)	(577)	(1,833)	(1,731)
Amortization of prior service cost	6	7	18	22
Amortization of transition obligation	5	7	15	20
Recognized net actuarial loss	199	9	597	27
Curtailment loss			44	
Net periodic pension cost	\$ 1,258	\$ 798	\$ 3,820	\$ 2,394

The Company contributed to the pension plan \$0.8 million and \$2.4 million for the three and nine months ended July 31, 2010, respectively, and expects to contribute an additional \$1.4 million in fiscal 2010. The Company contributed to the pension plan \$0.9 million and \$2.3 million for the three and nine months ended July 31, 2009.

**Note 11. Cash Dividends**

We paid a semiannual dividend of approximately \$1.4 million or 3 cents per share on February 5, 2010, to stockholders of record on January 19, 2010. We paid another semiannual dividend of approximately \$1.4 million or 3 cents per share on August 5, 2010, to stockholders of record on July 20, 2010.

---

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 12. Contingencies

**Legal Proceedings**

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

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 and a director, Robert S. Weiss, its Chief Executive Officer and a director, and John D. Fruth, a former director. On May 19, 2006, the Court consolidated this action and two related 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 Sciences, Inc. (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 named as defendants several of the Company's other current officers and directors and former officers. 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. In addition to the Company, the amended consolidated complaint names as defendants Messrs. Bender, Weiss, Fruth, Steven M. Neil, the Company's former Executive Vice President and Chief Financial Officer, and Gregory A. Fryling, CooperVision's former President and Chief Operating Officer.

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 October 23, 2007, the Court granted in-part and denied in-part Cooper and the individual defendants' motion to dismiss. The Court dismissed the claims relating to the Sarbanes-Oxley Act certifications, the Company's financial projections and the Company's accounting of assets acquired in the Ocular merger. The Court denied the motion as to the claims related to alleged false statements concerning the Biomedics product line, sales force integration and the impact of silicone hydrogel lenses. On November 28, 2007, the Court dismissed all claims against Mr. Fruth. On December 3, 2007, the Company and Messrs. Bender, Weiss, Neil and Fryling answered the amended consolidated complaint. On April 8, 2008, the Court granted a motion by Mr. Neil for judgment on the pleadings as to him. On October 20, 2009, the Court reaffirmed that Plaintiffs' financial projection claims had been dismissed in its earlier rulings.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

On January 6, 2009, the Court granted plaintiffs' motion for class certification. The certified class consists of those persons who purchased or otherwise acquired Cooper common stock between July 28, 2004, and November 21, 2005. Discovery in this matter has closed. Cooper and the individual defendants filed summary judgment motions on December 21, 2009. On March 4, 2010, the Court denied in substantial part the motions for summary judgment.

On May 4, 2010, the Company announced that it has reached an agreement in principle to settle the consolidated class action lawsuit for \$27.0 million. The proposed settlement is subject to court approval. The Court granted preliminary approval of the proposed settlement on August 16, 2010, and scheduled a hearing for final approval of the proposed settlement on December 13, 2010. The Company has exhausted its insurance coverage in defense of this litigation, and if the proposed settlement is not approved by the Court and the case proceeds to trial, general and administrative expenses will increase. The Company intends to defend this matter vigorously if the proposed settlement is not approved by the Court.

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

On March 17, 2006, Eben Brice filed a purported shareholder derivative complaint in the United States District Court for the Central District of California, Case No. 8:06-CV-00300-CJC-RNB, against several current and former officers and directors of the Company. The Company is named as a nominal defendant. Since 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 consolidated amended complaint names as defendants Messrs. Bender, Weiss, Fruth and Fryling. It also names as defendants current directors Michael Kalkstein, Steven Rosenberg, Stanley Zinberg, Allan Rubenstein, Donald Press and two former directors. The Company is a nominal defendant. 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 time for the Company to respond to the consolidated amended complaint has not yet passed.

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 Nos. RG06260748. A consolidated amended complaint was filed on September 18, 2006. The consolidated amended complaint names as defendants the same individuals that are the defendants in the federal derivative action. In addition, the complaint names current officers Carol R. Kaufman, Paul L. Remmell, Jeffrey Allan McLean, and Nicholas J. Pichotta and former officers. The Company is a nominal defendant. On November 29, 2006, the Superior Court for the County of Alameda entered an order staying the consolidated action pending the resolution of the federal derivative action.

Both the state and federal derivative actions 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)

Note 13. Financial Information for Guarantor and Non-Guarantor Subsidiaries

On January 31, 2007, the Company issued \$350.0 million aggregate principal amount of 7.125% Senior Notes due 2015 (Senior Notes), of which \$339.0 million were outstanding at July 31, 2010. The Senior Notes are guaranteed by certain of our direct and indirect subsidiaries. The Senior Notes represent 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 Operations for the three and nine months ended July 31, 2010 and 2009, the Consolidating Condensed Balance Sheets as of July 31, 2010 and October 31, 2009 and the Consolidating Condensed Statements of Cash Flows for the nine months ended July 31, 2010 and 2009 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 Operations**

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidating Entries	Consolidated Total
<b><u>Three Months Ended July 31, 2010</u></b>					
Net sales	\$	\$ 147,424	\$ 208,685	\$ (60,474)	\$ 295,635
Cost of sales		73,487	108,790	(62,628)	119,649
Gross profit		73,937	99,895	2,154	175,986
Operating expenses	8,010	54,379	62,201		124,590
Operating income (loss)	(8,010)	19,558	37,694	2,154	51,396
Interest expense	8,542		187		8,729
Other (expense) income, net	3,125	(154)	(1,986)		985
Income (loss) before income taxes	(13,427)	19,404	35,521	2,154	43,652
Provision for (benefit from) income taxes	(6,318)	8,357	1,886		3,925
Net income (loss)	\$ (7,109)	\$ 11,047	\$ 33,635	\$ 2,154	\$ 39,727
<b><u>Nine Months Ended July 31, 2010</u></b>					
Net sales	\$	\$ 413,647	\$ 596,230	\$ (164,712)	\$ 845,165
Cost of sales		200,645	326,293	(171,015)	355,923
Gross profit		213,002	269,937	6,303	489,242
Operating expenses	20,287	154,604	186,943		361,834
Operating income (loss)	(20,287)	58,398	82,994	6,303	127,408
Interest expense	27,980		704		28,684
Litigation settlement charge	27,000				27,000
Other (expense) income, net	8,714	1,478	(11,349)	(17)	(1,174)
Income (loss) before income taxes	(66,553)	59,876	70,941	6,286	70,550
Provision for (benefit from) income taxes	(28,937)	26,462	8,420		5,945
Net income (loss)	\$ (37,616)	\$ 33,414	\$ 62,521	\$ 6,286	\$ 64,605



**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Consolidating Condensed Statements of Operations**

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidating Entries	Consolidated Total
<b>Three Months Ended July 31, 2009</b>					
Net sales	\$	\$ 137,026	\$ 178,728	\$ (30,524)	\$ 285,230
Cost of sales		70,486	107,304	(38,955)	138,835
Gross profit		66,540	71,424	8,431	146,395
Operating expenses	6,703	47,176	58,591		112,470
Operating income (loss)	(6,703)	19,364	12,833	8,431	33,925
Interest expense	10,770		315		11,085
Other (expense) income, net	8,363	(5,322)	(3,196)		(155)
Income (loss) before income taxes	(9,110)	14,042	9,322	8,431	22,685
Provision for (benefit from) income taxes	(4,663)	6,622	(1,182)		777
Net income (loss)	\$ (4,447)	\$ 7,420	\$ 10,504	\$ 8,431	\$ 21,908

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidating Entries	Consolidated Total
<b>Nine Months Ended July 31, 2009</b>					
Net sales	\$	\$ 384,880	\$ 505,290	\$ (93,204)	\$ 796,966
Cost of sales		183,108	278,942	(102,670)	359,380
Gross profit		201,772	226,348	9,466	437,586
Operating expenses	20,086	137,415	172,172		329,673
Operating income (loss)	(20,086)	64,357	54,176	9,466	107,913
Interest expense	32,518		854		33,372
Other (expense) income, net	25,967	(14,945)	(2,773)		8,249
Income (loss) before income taxes	(26,637)	49,412	50,549	9,466	82,790
Provision for (benefit from) income taxes	(14,359)	21,444	5,275		12,360
Net income (loss)	\$ (12,278)	\$ 27,968	\$ 45,274	\$ 9,466	\$ 70,430

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Consolidating Condensed Balance Sheets**

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidating Entries	Consolidated Total
<b>July 31, 2010</b>					
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ (21)	\$ (1,920)	\$ 5,181	\$	\$ 3,240
Trade receivables, net		69,269	120,786		190,055
Inventories, net		109,105	171,131	(45,921)	234,315
Deferred tax assets	1,744	24,436	3,726		29,906
Other current assets	2,589	5,805	25,360		33,754
<b>Total current assets</b>	<b>4,312</b>	<b>206,695</b>	<b>326,184</b>	<b>(45,921)</b>	<b>491,270</b>
Property, plant and equipment, net	1,194	78,139	490,415		569,748
Goodwill	116	678,543	577,829		1,256,488
Other intangibles, net		72,618	45,910		118,528
Deferred tax assets	65,986	(43,106)	2,845		25,725
Other assets	1,680,929	23,776	13,244	(1,676,668)	41,281
	\$ 1,752,537	\$ 1,016,665	\$ 1,456,427	\$ (1,722,589)	\$ 2,503,040
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Short-term debt	\$ 1,285	\$ 1,215	\$ 19,798	\$	\$ 22,298
Other current liabilities	48,073	49,961	103,844		201,878
<b>Total current liabilities</b>	<b>49,358</b>	<b>51,176</b>	<b>123,642</b>		<b>224,176</b>
Long-term debt	624,000		373		624,373
Deferred tax liabilities			15,205		15,205
Intercompany and other liabilities	167,431	(267,899)	145,643		45,175
<b>Total liabilities</b>	<b>840,789</b>	<b>(216,723)</b>	<b>284,863</b>		<b>908,929</b>
Stockholders' equity	911,748	1,233,388	1,171,564	(1,722,589)	1,594,111
	\$ 1,752,537	\$ 1,016,665	\$ 1,456,427	\$ (1,722,589)	\$ 2,503,040

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Consolidating Condensed Balance Sheets**

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidating Entries	Consolidated Total
<b>October 31, 2009</b>					
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 2,574	\$ (1,688)	\$ 3,046	\$	\$ 3,932
Trade receivables, net		59,926	111,015		170,941
Inventories, net		107,475	203,557	(50,186)	260,846
Deferred tax assets	1,849	18,738	2,773		23,360
Other current assets	5,053	5,713	33,766	267	44,799
<b>Total current assets</b>	<b>9,476</b>	<b>190,164</b>	<b>354,157</b>	<b>(49,919)</b>	<b>503,878</b>
Property, plant and equipment, net	1,396	95,331	505,841		602,568
Goodwill	116	669,125	587,788		1,257,029
Other intangibles, net		66,904	47,796		114,700
Deferred tax assets	46,081	(20,752)	2,452		27,781
Other assets	1,682,377	24,667	15,575	(1,676,668)	45,951
	\$ 1,739,446	\$ 1,025,439	\$ 1,513,609	\$ (1,726,587)	\$ 2,551,907
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>					
Current liabilities:					
Short-term debt	\$	\$ 1,548	\$ 8,296	\$	\$ 9,844
Other current liabilities	22,732	37,068	105,770		165,570
<b>Total current liabilities</b>	<b>22,732</b>	<b>38,616</b>	<b>114,066</b>		<b>175,414</b>
Long-term debt	764,000		7,630		771,630
Deferred tax liabilities			16,456		16,456
Intercompany and other liabilities	17,271	(213,151)	243,945		48,065
<b>Total liabilities</b>	<b>804,003</b>	<b>(174,535)</b>	<b>382,097</b>		<b>1,011,565</b>
Stockholders equity	935,443	1,199,974	1,131,512	(1,726,587)	1,540,342
	\$ 1,739,446	\$ 1,025,439	\$ 1,513,609	\$ (1,726,587)	\$ 2,551,907

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Consolidating Condensed Statements of Cash Flows**

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidating Entries	Consolidated Total
<b>Nine Months Ended July 31, 2010</b>					
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	\$ (25,195)	\$ 90,410	\$ 137,838	\$	\$ 203,053
Cash flows from investing activities:					
Purchase of property, plant and Equipment, net	(34)	(4,682)	(36,272)		(40,988)
Acquisitions of businesses, net of cash acquired and other		(27,782)	(4,660)		(32,442)
Intercompany (investments in subsidiaries)	156,865			(156,865)	
Net cash (used in) provided by investing activities	156,831	(32,464)	(40,932)	(156,865)	(73,430)
Cash flows from financing activities:					
Net proceeds (repayments) of short-term debt	1,285	(333)	14,295		15,247
Intercompany proceeds (repayments)		(57,845)	(99,020)	156,865	
Net proceeds (repayments) of long-term debt	(140,000)		(10,050)		(150,050)
Dividends on common stock	(1,362)				(1,362)
Excess tax benefit from share-based compensation arrangements	407				407
Proceeds from exercise of stock options	5,439				5,439
Net cash provided by (used in) financing activities	(134,231)	(58,178)	(94,775)	156,865	(130,319)
Effect of exchange rate changes on cash and cash equivalents			4		4
Net increase in cash and cash equivalents	(2,595)	(232)	2,135		(692)
Cash and cash equivalents at the beginning of the period	2,574	(1,688)	3,046		3,932
Cash and cash equivalents at the end of the period	\$ (21)	\$ (1,920)	\$ 5,181	\$	\$ 3,240

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Consolidating Condensed Statements of Cash Flows**

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidating Entries	Consolidated Total
<b><u>Nine Months Ended July 31, 2009</u></b>					
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	\$ (11,288)	\$ 99,944	\$ 55,996	\$	\$ 144,652
Cash flows from investing activities:					
Purchase of property, plant and Equipment, net	(43)	(15,189)	(58,710)		(73,942)
Acquisitions of businesses, net of cash acquired and other	(437)	(813)	(2,806)		(4,056)
Intercompany (investments in subsidiaries)	81,920			(81,920)	
Net cash (used in) provided by investing activities	81,440	(16,002)	(61,516)	(81,920)	(77,998)
Cash flows from financing activities:					
Net proceeds (repayments) of short-term debt	(737)	637	(6,047)		(6,147)
Intercompany proceeds (repayments)		(84,214)	2,294	81,920	
Net proceeds (repayments) of long-term debt	(67,632)		10,000		(57,632)
Dividends on common stock	(1,355)				(1,355)
Excess tax benefit from share-based compensation arrangements	135				135
Proceeds from exercise of stock options	(31)				(31)
Net cash provided by (used in) financing activities	(69,620)	(83,577)	6,247	81,920	(65,030)
Effect of exchange rate changes on cash and cash equivalents			222		222
Net increase in cash and cash equivalents	532	365	949		1,846
Cash and cash equivalents at the beginning of the period	20	(846)	2,770		1,944
Cash and cash equivalents at the end of the period	\$ 552	\$ (481)	\$ 3,719	\$	\$ 3,790

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**Note 14. Business Segment Information**

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

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

Segment information:

	<b>Three Months Ended July 31,</b>		<b>Nine Months Ended July 31,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	(In thousands)			
<b>CooperVision net sales by category:</b>				
Toric lens	\$ 76,101	\$ 69,818	\$ 214,359	\$ 189,415
Multifocal lens	18,405	19,693	53,373	52,318
Single-use sphere lens	53,545	48,855	150,900	133,802
Non single-use sphere and other eye care products and other	100,990	102,537	288,643	294,394
<b>Total CooperVision net sales</b>	<b>249,041</b>	<b>240,903</b>	<b>707,275</b>	<b>669,929</b>
CooperSurgical net sales	46,594	44,327	137,890	127,037
<b>Total net sales</b>	<b>\$ 295,635</b>	<b>\$ 285,230</b>	<b>\$ 845,165</b>	<b>\$ 796,966</b>
<b>Operating income (loss):</b>				
CVI	\$ 47,555	\$ 29,964	\$ 114,689	\$ 96,953
CSI	11,851	10,664	33,006	31,046
Headquarters	(8,010)	(6,703)	(20,287)	(20,086)
<b>Total operating income</b>	<b>51,396</b>	<b>33,925</b>	<b>127,408</b>	<b>107,913</b>
Interest expense	8,729	11,085	28,684	33,372
Litigation settlement charge			27,000	
Other income (expense), net	985	(155)	(1,174)	8,249
<b>Income before income taxes</b>	<b>\$ 43,652</b>	<b>\$ 22,685</b>	<b>\$ 70,550</b>	<b>\$ 82,790</b>



**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

	July 31, 2010	October 31, 2009
	(In thousands)	
Identifiable assets:		
CVI	\$ 2,114,645	\$ 2,184,856
CSI	327,934	304,927
Headquarters	60,461	62,124
<b>Total</b>	<b>\$ 2,503,040</b>	<b>\$ 2,551,907</b>

Geographic information:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
	(In thousands)			
Net sales to external customers by country of domicile:				
United States	\$ 145,923	\$ 136,039	\$ 408,976	\$ 381,296
Europe	88,206	89,911	256,452	252,786
Rest of world	61,506	59,280	179,737	162,884
<b>Total</b>	<b>\$ 295,635</b>	<b>\$ 285,230</b>	<b>\$ 845,165</b>	<b>\$ 796,966</b>

	July 31, 2010	October 31, 2009
	(In thousands)	
Long-lived assets by country of domicile:		
United States	\$ 350,977	\$ 375,349
Europe	210,707	218,974
Rest of world	8,064	8,245
<b>Total</b>	<b>\$ 569,748</b>	<b>\$ 602,568</b>

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

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

**Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These include statements relating to plans, prospects, goals, strategies, future actions, events or performance and other statements which are other than statements of historical fact. In addition, all statements regarding anticipated growth in our net sales, CooperVision's manufacturing restructuring plan, anticipated market conditions, planned product launches and expected results of operations and integration of any acquisition are forward-looking. To identify these statements look for words like believes, expects, may, will, should, could, seeks, intends, or anticipates and similar words or phrases. Forward-looking statements necessarily depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Among the factors that could cause our actual results and future actions to differ materially from those described in forward-looking statements are:

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

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

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

New competitors, product innovations or technologies.

The Company's failure to realize anticipated savings, or its incurrence of unexpected costs, from CooperVision's manufacturing restructuring plan.

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

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

The impact of acquisitions or divestitures on net sales, earnings or margins and the ability to successfully integrate acquisitions into the business, including the product lines recently acquired by CooperSurgical.

Interest rate and foreign currency exchange rate fluctuations.

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

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

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations, Continued

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

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

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

The success of research and development activities and other start-up projects.

Dilution to earnings per share from acquisitions or issuing stock.

Changes in tax laws or their interpretation and changes in effective tax rates.

Changes in accounting principles or estimates.

Environmental risks, including significant environmental cleanup costs above those already accrued.

Other events described in our Securities and Exchange Commission filings, including the Business and Risk Factors sections in the Annual Report on Form 10-K for the fiscal year ended October 31, 2009, as such Risk Factors may be updated in quarterly filings. We caution investors that forward-looking statements reflect our analysis only on their stated date. We disclaim any intent to update them except as required by law.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations, Continued

**Results of Operations**

In this section, we discuss the results of our operations for the third quarter and first nine months of fiscal 2010 and compare them with the same period of fiscal 2009. We discuss our cash flows and current financial condition under Capital Resources and Liquidity.

**Third Quarter Highlights**

Net sales of \$295.6 million, up 4%.

Gross profit \$176.0 million, up 20%.

Operating income \$51.4 million, up 51%.

Diluted earnings per share of 86 cents, up from 48 cents per share.

Cash provided by operations \$75.3 million, down 1% from \$75.9 million.

**Nine-Month Highlights**

Net sales of \$845.2 million, up 6%.

Gross profit \$489.2 million, up 12%.

Operating income \$127.4 million, up 18%.

Diluted earnings per share of \$1.40, down from \$1.55 per share.

Results include a \$27.0 million charge related to an agreement in principle to settle all claims in the class action lawsuit.

Cash provided by operations \$203.1 million, up 40% from \$144.7 million

**Outlook**

## Edgar Filing: COOPER COMPANIES INC - Form 10-Q

Overall, we remain optimistic about the long-term prospects for the worldwide contact lens and women's healthcare markets. We believe that manufacturing improvements that reduced unit costs for certain of our contact lens products are sustainable. However, recent events affecting the economy as a whole, including the uncertainty and instability of global markets driven by employment, housing and credit concerns continue to represent a risk to our forecasted performance for the remainder of fiscal year 2010 and beyond.

We compete in the worldwide contact lens market with our disposable spherical, toric and multifocal contact lenses offered in a variety of materials including using phosphorylcholine (PC) Technology and silicone hydrogel Aquaform® technology. We believe that there will be lower contact lens wearer dropout rates as technology improves and that the shift in practitioner preferences from low-featured commodity lenses to higher-value specialty and single-use lenses continue to support a favorable world market outlook. CVI is focused on greater worldwide market penetration as we roll out new products and continue to expand our presence in existing and emerging markets.

Sales of contact lenses utilizing silicone hydrogel materials, a major product material in the industry, have grown significantly. In the past three years, the Company launched monthly silicone hydrogel sphere, toric and multifocal lens products under our Biofinity® brand and two-week silicone hydrogel sphere and toric lens products under our Avaira® brand. While we believe that we have high quality silicone hydrogel contact lens products, our future growth may be limited by our late entry into the silicone hydrogel segment of the market. For example, competitive silicone hydrogel single-use and multifocal lens products are making substantial gains in market share and represent a risk to our business. We have limited manufacturing capacity for our silicone hydrogel multifocal product and have not yet marketed a silicone hydrogel single-use product. Our ability to compete successfully with silicone hydrogel products is an important factor to achieving our projected future levels of sales growth and profitability.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

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

The medical device segment of women's healthcare is highly fragmented. CSI competes based on brand awareness and market focused product offerings. CSI's strategy includes identifying and acquiring selected companies and product lines that improve its existing market position or serve new clinical areas. During our fiscal first half of 2010, CSI purchased the Her Option® endometrial ablation product line from American Medical Systems Holdings, Inc. Her Option is an FDA approved treatment for women suffering from excessive menstrual bleeding who wish to avoid a hysterectomy. It is an office-based therapy with minimal anesthesia and low patient discomfort. CSI also acquired a smoke evacuation system to remove surgical smoke during laparoscopic procedures in an operating room environment. This system is marketed directly to hospitals. We intend to continue to invest in CSI's business through acquisitions of companies and product lines.

We believe that our cash and cash equivalents, cash flow from operating activities and existing credit facilities will fund future operations, capital expenditures, cash dividends, settlement obligations and acquisitions. In connection with the normal management of our financial liabilities, we may seek to renegotiate our syndicated Senior Unsecured Revolving Line of Credit that matures on January 31, 2012.

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

	Percent of Sales			Percent of Sales		
	Three Months Ended			Nine Months Ended		
	July 31,			July 31,		
	2010	2009	% Change	2010	2009	% Change
Net sales	100%	100%	4%	100%	100%	6%
Cost of sales	40%	49%	(14)%	42%	45%	(1)%
Gross profit	60%	51%	20%	58%	55%	12%
Selling, general and administrative expense	38%	35%	11%	38%	36%	12%
Research and development expense	3%	3%	11%	3%	3%	(1)%
Amortization of intangibles	2%	1%	12%	2%	2%	8%
Operating income	17%	12%	51%	15%	14%	18%

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

Cooper's two business units, CVI and CSI, generate all of its sales.

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

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

Our consolidated net sales grew by \$10.4 million or 4% and \$48.2 million or 6% in the three and nine months ended July 31, 2010, respectively.

	Three Months Ended July 31,			Nine Months Ended July 31,		
	2010	2009	% Change	2010	2009	% Change
	(\$ in millions)					
CVI	\$ 249.0	\$ 240.9	3%	\$ 707.3	\$ 669.9	6%
CSI	46.6	44.3	5%	137.9	127.1	9%
	\$ 295.6	\$ 285.2	4%	\$ 845.2	\$ 797.0	6%

**CVI Net Sales**

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

Commodity spherical lenses to value-added spherical lenses such as continuous wear lenses and lenses to alleviate dry eye symptoms as well as lenses with aspherical optical properties or higher oxygen permeable lenses such as silicone hydrogels.

Commodity lenses to toric and multifocal lenses.

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

CVI's product lines are intended to take advantage of these trends. CVI's silicone hydrogel spherical lens products, Biofinity and Avaira, are marketed in the United States, Europe and Asia Pacific, excluding Japan. CVI has launched two silicone hydrogel toric products—Biofinity toric in the first calendar quarter of 2009 and Avaira toric in fiscal year 2010. We believe that it is important to develop a full range of multifocal and single-use silicone hydrogel products due to increased pressure from silicone hydrogel products offered by our major competitors.





**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

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

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

Biofinity and Avaira aspheric, toric and multifocal lenses, manufactured using proprietary silicone hydrogel Aquaform technology, increase oxygen transmissibility for longer wear.

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

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

Multifocal lens designs correct presbyopia.

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

**CVI Net Sales by Region**

	Three Months Ended July 31,			Nine Months Ended July 31,		
	2010	2009	% Change	2010	2009	% Change
	(\$ in millions)					
Americas	\$ 112.4	\$ 105.7	6%	\$ 308.9	\$ 289.6	7%
EMEA	89.6	90.7	(1)%	260.9	254.4	3%
Asia Pacific	47.0	44.5	5%	137.5	125.9	9%
	\$ 249.0	\$ 240.9	3%	\$ 707.3	\$ 669.9	6%

CVI's worldwide net sales grew 3% in the three-month period to period comparison and grew 6% in the nine-month period to period comparison. Americas net sales grew 6% and 7% in the three- and nine-month periods, primarily due to market gains of CVI's silicone hydrogel spherical and toric lenses, up 87% in the three-month period and 106% in the nine-month period, and single-use lenses, up 31% in the three-month period and 34% in the nine-month period. In our fiscal first quarter of 2010, we recorded \$10.1 million of reductions to Americas net sales due to out-of-period adjustments to increase accruals for rebates that were under-accrued in fiscal 2009. EMEA net sales declined 1% in the three-month period and grew 3% in the nine-month period driven by increases in sales of silicone hydrogel lenses, up 93% and 140%,

## Edgar Filing: COOPER COMPANIES INC - Form 10-Q

respectively. Net sales to the Asia Pacific region grew 5% and 9% in the three- and nine-month periods, primarily due to sales growth of single-use spherical and toric products, up 7% and 8% and silicone hydrogel lenses, up 92% and 128% in the three- and nine-month periods, respectively.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

Net sales growth includes increases in single-use spheres up 10% and total spheres up 4%. Total toric lenses grew 9%, including 9% growth of single-use toric lenses, but multifocal lenses declined 7%. Silicone hydrogel spherical and toric lenses grew 89% worldwide. Proclear products increased 3% driven by growth of single-use lenses. Older conventional lens products and cosmetic lenses declined 18% and 10%, respectively.

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

**CSI Net Sales**

CSI's net sales increased 5% in the three-month period and grew 9% in the nine-month period to \$46.6 million and \$137.9 million, respectively, with organic net sales growth of 1% and 5%, respectively. Sales of products marketed directly to hospitals grew 18% and now represent 36% of CSI's sales. Women's healthcare products used primarily by obstetricians and gynecologists generate 97% of CSI's sales. The balance consists of sales of medical devices outside of women's healthcare which CSI does not actively market. Unit growth and product mix along with increased average realized prices on disposable products have influenced organic sales growth.

**Cost of Sales/Gross Profit**

Gross profit as a percentage of net sales or gross margin was:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
CVI	58%	49%	57%	54%
CSI	66%	62%	63%	62%
Consolidated	60%	51%	58%	55%

The increases in CVI's gross margin are largely attributable to improvements in manufacturing efficiencies and product mix, primarily the shift to higher margin silicone hydrogel products. CVI's gross margin in the fiscal third quarter 2009 included costs associated with fixed asset write offs; such costs were insubstantial in the fiscal third quarter of 2010. These gross margin increases were partially offset by costs associated with the 2009 CooperVision manufacturing restructuring plan, recorded as cost of sales, of \$6.7 million for the three-month period and \$12.5 million for the nine-month period ended July 31, 2010 compared to \$4.1 million for the three- and nine-month periods ended July 31, 2009. As discussed below, these costs are primarily severance charges and accelerated depreciation, and we expect to incur similar costs related to this manufacturing restructuring plan through the fiscal first quarter of 2011. Gross margin for the fiscal first nine months of 2010 reflects the increase in accruals for rebates discussed above.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

The increase in CSI's gross margin for the three-month period ended July 31, 2010 is due to the recognition of a one-time \$1.5 million settlement resolving a vendor dispute. CSI's gross margin for the three- and nine-month periods also reflect efficiencies from the integration of recent acquisitions and changing product mix, including higher margins on recently acquired products and those marketed directly to hospitals, that now represent 36% of net sales in the current three-month period compared to 33% in the same period of 2009.

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

	Three Months Ended July 31,					Nine Months Ended July 31,				
	2010	% Net Sales	2009	% Net Sales	% Change	2010	% Net Sales	2009	% Net Sales	% Change
	(\$ in millions)									
CVI	\$ 87.6	35%	\$ 79.2	33%	11%	\$ 256.9	36%	\$ 228.1	34%	13%
CSI	15.7	34%	14.1	32%	10%	46.0	33%	40.5	32%	14%
Headquarters	8.0	%	6.7	%	20%	20.3	%	20.1	%	1%
	\$ 111.3	38%	\$ 100.0	35%	11%	\$ 323.2	38%	\$ 288.7	36%	12%

The increases in CVI's SGA in the fiscal 2010 periods both in absolute dollars and as a percentage of net sales is primarily due to our increased investment in sales and marketing to reach new customers and to promote our silicone hydrogel products as well as investments in infrastructure such as information technology. The increase is also attributable to accrued bonuses in fiscal 2010 that were insubstantial in the same periods of 2009.

The increase in CSI's SGA in the fiscal 2010 periods is primarily due to increased selling and marketing costs to support higher sales and anticipated further growth.

Corporate headquarters' SGA increased in the fiscal 2010 periods primarily due to increased legal costs and accrued bonuses offset by reduced headcount, lower share-based compensation expense and audit costs.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

	Three Months Ended July 31,					Nine Months Ended July 31,				
	2010	% Net Sales	2009	% Net Sales	% Change	2010	% Net Sales	2009	% Net Sales	% Change
	(\$ in millions)									
CVI	\$ 7.1	3%	\$ 6.2	3%	14%	\$ 21.1	3%	\$ 21.6	3%	(2)%
CSI	1.5	3%	1.5	3%	(3)%	3.7	3%	3.4	3%	8%
	\$ 8.6	3%	\$ 7.7	3%	11%	\$ 24.8	3%	\$ 25.0	3%	(1)%

The 14% increase in CVI research and development expense in the fiscal third quarter of 2010 is primarily due to investments in new technologies and clinical trials. In the fiscal second quarter of 2009, CVI recorded a \$3.0 million in-process research and development charge related to the acquisition of certain distribution rights. Excluding the charge, CVI's research and development expenditures grew 14% during the nine-month period ended July 31, 2010, as compared to the prior year period. CVI's research and development activities include programs to develop disposable silicone hydrogel products and product lines utilizing PC Technology.

CSI's research and development activities include the upgrade and redesign of many CSI incontinence, assisted reproductive technology and uterine manipulation products and other gynecological and obstetrical product development activities.

**Restructuring Costs**

The Company initiated the Critical Activity restructuring plan in the fiscal first quarter of 2009, and it was substantially completed in our fiscal fourth quarter of 2009. We reported \$0.3 million in the fiscal first nine months of 2010 compared to \$3.9 million in the same period of fiscal 2009, with total restructuring costs for this plan of \$4.6 million. The Company entered into the 2009 CooperVision manufacturing restructuring plan in the fiscal third quarter of 2009, which primarily includes employee benefit costs and non-cash costs associated with assets, with total expense reported of \$12.6 million in the fiscal first nine months of 2010, compared to \$4.1 million in the same period of fiscal 2009. The Company completed restructuring activities in Adelaide, Australia, in our fiscal third quarter of 2010 and expects to complete restructuring activities in Norfolk, Virginia, in our fiscal first quarter of 2011. The Company may, from time to time, decide to pursue additional restructuring activities that involve charges in future periods.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

	Three Months Ended July 31,					Nine Months Ended July 31,				
	2010	% Net Sales	2009	% Net Sales	% Change	2010	% Net Sales	2009	% Net Sales	% Change
	(\$ in millions)									
CVI	\$ 47.6	19%	\$ 30.0	12%	59%	\$ 114.7	16%	\$ 97.0	14%	18%
CSI	11.8	25%	10.6	24%	11%	33.0	24%	31.0	24%	6%
Headquarters	(8.0)	%	(6.7)	%	(20)%	(20.3)	%	(20.1)	%	(1)%
	\$ 51.4	17%	\$ 33.9	12%	51%	\$ 127.4	15%	\$ 107.9	14%	18%

The increases in operating income in the fiscal 2010 periods both in absolute dollars and as a percentage of net sales were primarily due to increases in gross margin dollars of 20% and 12% for the three- and nine-month periods, respectively, partially offset by increases in operating expenses of 11% and 10% in the same periods, respectively.

**Interest Expense**

Interest expense decreased 21% to \$8.7 million and decreased 14% to \$28.7 million in the three- and nine-month periods, respectively, as compared to the prior year periods. Interest expense was 3% of net sales in the three- and nine-month periods, down from 4% of net sales in the prior year periods. The decrease primarily reflects a reduction in our long-term borrowings used for capital expenditures.

**Settlement**

The Company and several of its directors and officers have been named in a consolidated securities class action lawsuit, the nature and status of which is described in Note 12. Contingencies. The Company announced on May 4, 2010, that it has reached an agreement in principle and recorded a charge in our fiscal second quarter 2010 to settle the consolidated class action lawsuit for \$27.0 million, which we funded into escrow in our fiscal fourth quarter of 2010. The proposed settlement is subject to court approval. The Court granted preliminary approval of the proposed settlement on August 16, 2010, and scheduled a hearing for final approval of the proposed settlement on December 13, 2010. The Company has exhausted its insurance coverage in defense of this litigation, and if the proposed settlement is not approved by the Court and the case proceeds to trial, general and administrative expenses will increase.

**Other Income (Expense), Net**

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
	(In millions)			
Gain on extinguishment of debt	\$	\$	\$	\$ 1.8
Foreign exchange gain (loss)	0.9	(0.2)	(1.0)	6.6
Other	0.1		(0.2)	(0.2)
	\$ 1.0	\$ (0.2)	\$ (1.2)	\$ 8.2





**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

In December 2008, we purchased through the open market, in a privately negotiated transaction, \$11.0 million in aggregate principal amount of our 7.125% Senior Notes at a discounted price of approximately \$9.0 million plus accrued and unpaid interest. We also wrote off approximately \$0.2 million of unamortized costs related to the Senior Notes and recorded a gain on the repurchase in other income on our Consolidated Statements of Income. The Company paid the aggregate purchase price from borrowings under its \$650.0 million revolving line of credit.

In the fiscal first quarter of 2009, we recognized a foreign exchange net gain of \$6.5 million, primarily due to the U.S. dollar strengthening against other currencies and an initiative we completed in the quarter related to intercompany transactions.

**Provision for Income Taxes**

We recorded income tax expense of \$5.9 million in the fiscal first nine months of 2010 compared to \$12.4 million in the fiscal first nine months of 2009. Cooper's effective tax rate (ETR) (provision for income taxes divided by pretax income) for the fiscal first nine months of 2010 was 8.4%. Our year-to-date results include the projected fiscal year ETR, plus any discrete items. The ETR used to record the provision for income taxes for the fiscal first nine months of 2009 was 14.9%. The decrease in the fiscal 2010 ETR reflects the shift in the geographic mix of income as well as litigation settlement charges incurred in the United States during the period. The ETR is below the United States statutory rate as a majority of our income is earned in foreign jurisdictions with lower tax rates.

**Share-Based Compensation Plans**

The Company has several share-based compensation plans that are described in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2009. The compensation and related income tax benefit recognized in the Company's consolidated financial statements for share-based awards were as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	2009	2010	2009
	(In millions)			
Selling, general and administrative expense	\$ 1.9	\$ 1.9	\$ 6.2	\$ 8.9
Cost of sales	0.1	0.3	0.5	0.9
Research and development expense	0.1	0.2	0.3	0.6
Capitalized in inventory	0.1	0.3	0.5	0.9
<b>Total compensation expense</b>	<b>\$ 2.2</b>	<b>\$ 2.7</b>	<b>\$ 7.5</b>	<b>\$ 11.3</b>
Related income tax benefit	\$ 0.6	\$ 0.9	\$ 2.5	\$ 4.0

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

Operating cash flow \$75.3 million vs. \$75.9 million in the fiscal third quarter of 2009.

Expenditures for purchases of property, plant and equipment (PP&E) \$16.9 million vs. \$19.9 million in the prior year period.

Total debt decreased to \$646.7 million from \$781.5 million at October 31, 2009.

**Nine-Month Highlights**

Operating cash flow \$203.1 million vs. \$144.7 million in the fiscal first nine months of 2009.

Expenditures for purchases of PP&E \$41.0 million vs. \$73.9 million in the prior year period.

Cash payments for acquisitions totaled \$32.4 million vs. \$4.1 million in the prior year period.

**Comparative Statistics**

	July 31, 2010	October 31, 2009
	(\$ in millions)	
Cash and cash equivalents	\$ 3.2	\$ 3.9
Total assets	\$ 2,503.0	\$ 2,551.9
Working capital	\$ 267.1	\$ 328.5
Total debt	\$ 646.7	\$ 781.5
Stockholders' equity	\$ 1,594.1	\$ 1,540.3
Ratio of debt to equity	0.41:1	0.51:1
Debt as a percentage of total capitalization	29%	34%
Operating cash flow - twelve months ended	\$ 281.5	\$ 223.1

**Working Capital**

The decrease in working capital in the fiscal first nine months of 2010 was primarily due to a decrease in inventories, the accrued litigation settlement and increases in short-term debt, accounts payable and other accrued liabilities, partially offset by an increase in trade accounts receivable.

**Operating Cash Flow**

## Edgar Filing: COOPER COMPANIES INC - Form 10-Q

Cash flow provided by operating activities totaled \$203.1 million in the fiscal first nine months of 2010 and \$281.5 million over the twelve-month period ended July 31, 2010. Operating cash flow increased compared to the fiscal first nine months of 2009, primarily due to the reduction of inventory arising from higher sales volume, the non-cash accrued litigation settlement and timing of accounts payable and other current liabilities.

At July 31, 2010, Cooper's inventory months on hand (MOH) decreased to 5.9 from 6.0 at July 31, 2009. Our days sales outstanding (DSO) increased to 57 days from 53 days in last year's first months. Based on our experience and knowledge of our customers and our analysis of inventoried products and product levels, we believe that our accounts receivable and inventories are recoverable.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations, Continued

**Investing Cash Flow**

Cash used in investing activities of \$73.4 million in the fiscal first nine months of 2010 was for capital expenditures of \$41.0 million, primarily to improve manufacturing efficiency, and payments of \$32.4 million related to acquisitions.

**Financing Cash Flow**

Cash used in financing activities of \$130.3 million in the fiscal first nine months of 2010 was driven by net repayments of debt of \$134.8 million and dividends paid on our common stock of \$1.4 million, partially offset by proceeds of \$5.9 million from the exercise of share-based compensation awards.

**Estimates and Critical Accounting Policies**

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

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations, Continued

estimates, requiring adjustment to these balances in future periods. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results are:

Revenue recognition

Allowance for doubtful accounts

Net realizable value of inventory

Valuation of goodwill

Business combinations

Income taxes

Share-based compensation

During the fiscal first nine months of 2010, there were no significant changes in our estimates and critical accounting policies. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended October 31, 2009, for a more complete discussion of our estimates and critical accounting policies.

The Company performed its annual impairment test for valuation of goodwill during the fiscal third quarter of 2010, and our analysis indicated that we had no impairment of goodwill. As described in Note 4. Intangible Assets in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended October 31, 2009, we will continue to monitor conditions and changes that could indicate that our recorded goodwill may be impaired.

**New Accounting Pronouncements**

On November 1, 2009, the Company adopted the FASB issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversion* (FSP APB 14-1). FSP APB 14-1, which was issued in May 2008, requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer's nonconvertible debt borrowing rate. As a result, the liability component would be recorded at a discount reflecting its below market coupon interest rate, and the liability component would be accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected in the results of operations. This change in methodology affects the calculations of net income and earnings per share but will not increase the cash interest payments. FSP APB 14-1 was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Retrospective application to all periods presented is required.



**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and early adoption is prohibited. The convertible senior debentures that the Company issued in fiscal 2003 and subsequently repurchased in fiscal 2008 are within the scope of FSP APB 14-1. The Company has adjusted the reported amounts in its Consolidated Balance Sheet as of October 31, 2009 as follows:

**Consolidated Balance Sheet at October 31, 2009**

	As Reported	Adjustments (In thousands)	As Adjusted
Additional paid-in capital	\$ 1,053,662	\$ 9,627	\$ 1,063,289
Retained earnings	\$ 500,078	\$ (9,627)	\$ 490,451

**Trademarks**

Aquaform<sup>®</sup>, Avaira<sup>®</sup>, Biofinity<sup>®</sup>, Biomedics<sup>®</sup>, Her Option<sup>®</sup> and Proclear<sup>®</sup> are registered trademarks of The Cooper Companies, Inc., its affiliates and/or subsidiaries. PC Technology is a trademark of The Cooper Companies, Inc., its affiliates and/or subsidiaries.

---

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

Most of our operations outside the United States have their local currency as their functional currency. We are exposed to risks caused by changes in foreign exchange, principally our British pound sterling, euro, Japanese yen, Swedish krona and Canadian dollar-denominated debt and receivables, and from operations in foreign currencies. We have taken steps to minimize our balance sheet exposure. Although we enter into foreign exchange agreements with financial institutions to reduce our exposure to fluctuations in foreign currency values relative to our debt or receivables obligations, these hedging transactions do not eliminate that risk entirely. We are also exposed to risks associated with changes in interest rates, as the interest rate on our Senior Unsecured Revolving Line of Credit varies with the London Interbank Offered Rate (LIBOR). Our significant increase in debt following the acquisition of Ocular Sciences, Inc. in January 2005 has significantly increased the risk associated with changes in interest rates. We have decreased this interest rate risk by hedging a significant portion of variable rate debt effectively converting it to fixed rate debt for varying periods through May 2011. For additional detail, see Item 1A. Risk Factors and Note 1 and Note 8 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended October 31, 2009.

On January 31, 2007, Cooper entered into a \$650.0 million syndicated Senior Unsecured Revolving Line of Credit (Revolver) and \$350.0 million aggregate principal amount of 7.125% Senior Notes due 2015 of which \$339.0 million are outstanding. KeyBank led the Revolver refinancing, and the Revolver matures on January 31, 2012.

In connection with the normal management of our financial liabilities, we may seek to renegotiate the Revolver, and we may from time to time seek to retire or purchase our Senior Notes through open market cash purchases, privately negotiated transactions or otherwise. Such repurchases will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

**Item 4. Controls and Procedures**

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

In conjunction with the close of each fiscal quarter, the Company conducts a review and evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer, based upon their evaluation as of July 31, 2010, the end of the fiscal quarter covered in this report, concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.



**Table of Contents**

As of July 31, 2010, there has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

---

**Table of Contents**

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

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

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 and a director, Robert S. Weiss, its Chief Executive Officer and a director, and John D. Fruth, a former director. On May 19, 2006, the Court consolidated this action and two related 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 Sciences, Inc. (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 named as defendants several of the Company's other current officers and directors and former officers. 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. In addition to the Company, the amended consolidated complaint names as defendants Messrs. Bender, Weiss, Fruth, Steven M. Neil, the Company's former Executive Vice President and Chief Financial Officer, and Gregory A. Fryling, CooperVision's former President and Chief Operating Officer.

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 October 23, 2007, the Court granted in-part and denied in-part Cooper and the individual defendants' motion to dismiss. The Court dismissed the claims relating to the Sarbanes-Oxley Act certifications, the Company's financial projections and the Company's accounting of assets acquired in the Ocular merger. The Court denied the motion as to the claims related to alleged false statements concerning the Biomedics product line, sales force integration and the impact of silicone hydrogel lenses. On November 28, 2007, the Court dismissed all claims against Mr. Fruth. On December 3, 2007, the Company and Messrs. Bender, Weiss, Neil and Fryling answered the amended consolidated complaint. On April 8, 2008, the Court granted a motion by Mr. Neil for judgment on the pleadings as to him. On October 20, 2009, the Court reaffirmed that Plaintiffs' financial projection claims had been dismissed in its earlier rulings.

## **Table of Contents**

On January 6, 2009, the Court granted plaintiffs' motion for class certification. The certified class consists of those persons who purchased or otherwise acquired Cooper common stock between July 28, 2004, and November 21, 2005. Discovery in this matter has closed. Cooper and the individual defendants filed summary judgment motions on December 21, 2009. On March 4, 2010, the Court denied in substantial part the motions for summary judgment.

On May 4, 2010, the Company announced that it has reached an agreement in principle to settle the consolidated class action lawsuit for \$27.0 million. The proposed settlement is subject to court approval. The Court granted preliminary approval of the proposed settlement on August 16, 2010, and scheduled a hearing for final approval of the proposed settlement on December 13, 2010. The Company has exhausted its insurance coverage in defense of this litigation, and if the proposed settlement is not approved by the Court and the case proceeds to trial, general and administrative expenses will increase. The Company intends to defend this matter vigorously if the proposed settlement is not approved by the Court.

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

On March 17, 2006, Eben Brice filed a purported shareholder derivative complaint in the United States District Court for the Central District of California, Case No. 8:06-CV-00300-CJC-RNB, against several current and former officers and directors of the Company. The Company is named as a nominal defendant. Since 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 consolidated amended complaint names as defendants Messrs. Bender, Weiss, Fruth and Fryling. It also names as defendants current directors Michael Kalkstein, Steven Rosenberg, Stanley Zinberg, Allan Rubenstein, Donald Press and two former directors. The Company is a nominal defendant. 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 time for the Company to respond to the consolidated amended complaint has not yet passed.

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 Nos. RG06260748. A consolidated amended complaint was filed on September 18, 2006. The consolidated amended complaint names as defendants the same individuals that are the defendants in the federal derivative action. In addition, the complaint names current officers Carol R. Kaufman, Paul L. Remmell, Jeffrey Allan McLean, and Nicholas J. Pichotta and former officers. The Company is a nominal defendant. On November 29, 2006, the Superior Court for the County of Alameda entered an order staying the consolidated action pending the resolution of the federal derivative action.

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

**Table of Contents**

**Item 1A. Risk Factors**

Our business faces significant risks. These risks include the risk described below. The risk factor set forth below was disclosed under Risk Factors in our Annual Report on Form 10-K for the fiscal year ended October 31, 2009, and has been modified to reflect changes since that filing. This risk should be read in conjunction with the other information in this report and the Annual Report on Form 10-K for the fiscal year ended October 31, 2009. Our business, financial condition and results of operations could be materially adversely affected by any of these risks, and the trading prices of our common stock could decline.

We face risks in connection with securities litigation.

The Company and several of its directors and officers have been named in a consolidated securities class action lawsuit and its directors and certain of its officers have been named in two consolidated derivative lawsuits, the nature and status of which are described in Item 1. Legal Proceedings. The Company announced on May 4, 2010 that it has reached an agreement in principle to settle the consolidated class action lawsuit for \$27.0 million. The proposed settlement is subject to court approval. The Court granted preliminary approval of the proposed settlement on August 16, 2010, and scheduled a hearing for final approval of the proposed settlement on December 13, 2010. We also are unable to estimate the range of potential losses that would be incurred if the proposed settlement were not to be approved and the parties returned to litigation, or to determine the total effect that it may have on our results of operations, financial position and cash flows. Securities litigation, irrespective of its merits, is costly to defend and diverts management's attention and resources, which could adversely affect our business.

The purported derivative lawsuits, which are at a very preliminary stage, do not seek damages from the Company. However, derivative litigation is costly, and these lawsuits may divert management's attention and resources, which could adversely affect our business.

---

**Table of Contents**

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
11*	Calculation of Earnings Per Share
31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
32.2	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	BRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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

**Table of Contents**

SIGNATURE

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

Date: September 3, 2010

The Cooper Companies, Inc.  
(Registrant)

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

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Index of Exhibits

**Exhibit No.**

11*	Calculation of Earnings Per Share
31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
32.2	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	BRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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