

COOPER COMPANIES INC  
Form 10-Q  
September 04, 2009  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For Quarterly Period Ended July 31, 2009

**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.

<b>Common Stock, \$.10 par value</b>	<b>45,180,542 Shares</b>
<b>Class</b>	<b>Outstanding at August 31, 2009</b>

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

INDEX

	<b>Page No.</b>
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Income Three and Nine Months Ended July 31, 2009 and 2008</u>	3
<u>Consolidated Balance Sheets July 31, 2009 and October 31, 2008</u>	4
<u>Consolidated Condensed Statements of Cash Flows Nine Months Ended July 31, 2009 and 2008</u>	5
<u>Consolidated Statements of Comprehensive Income (Loss) Three and Nine Months Ended July 31, 2009 and 2008</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>	38
Item 3. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	55
Item 4. <u>Controls and Procedures</u>	55
<b>PART II. <u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	56
Item 1A. <u>Risk Factors</u>	58
Item 6. <u>Exhibits</u>	59
<u>Signature</u>	60
<u>Index of Exhibits</u>	61

**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,	
	2009	2008	2009	2008
Net sales	\$ 285,230	\$ 278,513	\$ 796,966	\$ 780,533
Cost of sales	138,835	123,416	359,380	332,547
Gross profit	146,395	155,097	437,586	447,986
Selling, general and administrative expense	100,038	110,639	288,735	328,048
Research and development expense	7,737	9,030	25,032	26,278
Restructuring costs	462	173	3,416	1,521
Amortization of intangibles	4,233	4,211	12,490	12,678
Operating income	33,925	31,044	107,913	79,461
Interest expense	11,085	15,266	33,372	38,441
Other (expense) income, net	(155)	1,738	8,249	1,929
Income before income taxes	22,685	17,516	82,790	42,949
Provision for (benefit from) income taxes	777	(363)	12,360	6,952
Net income	\$ 21,908	\$ 17,879	\$ 70,430	\$ 35,997
Basic earnings per share	\$ 0.48	\$ 0.40	\$ 1.56	\$ 0.80
Diluted earnings per share	\$ 0.48	\$ 0.39	\$ 1.55	\$ 0.79
Number of shares used to compute earnings per share:				
Basic	45,180	44,993	45,164	44,974
Diluted	45,694	46,934	45,368	47,477

See accompanying notes.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

(Unaudited)

	July 31, 2009	October 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,790	\$ 1,944
Trade accounts receivable, net of allowance for doubtful accounts of \$4,767 at July 31, 2009 and \$4,541 at October 31, 2008	170,276	159,158
Inventories	276,847	283,454
Deferred tax assets	20,944	26,337
Prepaid expense and other current assets	46,158	55,139
Total current assets	518,015	526,032
Property, plant and equipment, at cost	874,444	822,354
Less: accumulated depreciation and amortization	266,102	219,700
	608,342	602,654
Goodwill	1,260,793	1,251,699
Other intangibles, net	119,809	130,587
Deferred tax assets	28,855	25,645
Other assets	45,621	50,999
	\$ 2,581,435	\$ 2,587,616
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 38,448	\$ 43,013
Accounts payable	44,872	63,636
Employee compensation and benefits	30,450	34,915
Accrued acquisition costs	4,133	6,318
Accrued income taxes	11,713	4,378
Other current liabilities	82,517	103,147
Total current liabilities	212,133	255,407
Long-term debt	800,525	861,781
Deferred tax liabilities	13,064	15,196
Accrued pension liability and other	41,336	38,156
Total liabilities	1,067,058	1,170,540
Commitments and contingencies (see Note 12)		
Stockholders' equity:		
Preferred stock, 10 cents par value, shares: authorized 1,000; zero shares issued or outstanding		

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

Common stock, 10 cents par value, shares: authorized 70,000; issued 45,524 at July 31, 2009 and 45,482 at October 31, 2008	4,552	4,548
Additional paid-in capital	1,051,076	1,040,945
Accumulated other comprehensive loss	(5,947)	(25,240)
Retained earnings	469,961	402,242
Treasury stock at cost: 343 and 353 shares at July 31, 2009 and October 31, 2008, respectively	(5,265)	(5,419)
 Stockholders' equity	 1,514,377	 1,417,076
	<b>\$ 2,581,435</b>	<b>\$ 2,587,616</b>

See accompanying notes.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

	<b>Nine Months Ended July 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 70,430	\$ 35,997
Depreciation and amortization	67,993	62,391
Increase in operating capital	(16,127)	(65,810)
Other non-cash items	22,356	22,943
 Net cash provided by operating activities	 144,652	 55,521
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(73,942)	(102,282)
Acquisitions of businesses, net of cash acquired, and other	(4,056)	(3,711)
 Net cash used in investing activities	 (77,998)	 (105,993)
<b>Cash flows from financing activities:</b>		
Net repayments of short-term debt	(6,147)	(9,624)
Repayments and repurchase of long-term debt	(642,157)	(667,120)
Proceeds from long-term debt	584,525	725,620
Dividends on common stock	(1,355)	(2,699)
Excess tax benefit from share-based compensation arrangements	135	1,758
Issuance of common stock for employee stock plans	(31)	2,693
 Net cash (used in) provided by financing activities	 (65,030)	 50,628
Effect of exchange rate changes on cash and cash equivalents	222	56
 Net increase in cash and cash equivalents	 1,846	 212
Cash and cash equivalents - beginning of period	1,944	3,226
 Cash and cash equivalents - end of period	 \$ 3,790	 \$ 3,438

See accompanying notes.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	<b>Three Months</b>		<b>Nine Months Ended</b>	
	<b>Ended July 31,</b>		<b>July 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net income	\$ 21,908	\$ 17,879	\$ 70,430	\$ 35,997
Other comprehensive income (loss):				
Foreign currency translation adjustment	52,448	(2,034)	22,660	(16,423)
Change in value of derivative instruments, net of tax	10,452	14,581	(3,367)	(1,204)
Other comprehensive income (loss)	62,900	12,547	19,293	(17,627)
Comprehensive income	\$ 84,808	\$ 30,426	\$ 89,723	\$ 18,370

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) develops, manufactures and markets healthcare products through its two business units:

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

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

The unaudited consolidated financial statements presented in this report contain all adjustments necessary to present fairly Cooper's consolidated financial position at July 31, 2009 and October 31, 2008, the consolidated results of its operations for the three and nine months ended July 31, 2009 and 2008 and its consolidated condensed cash flows for the nine months ended July 31, 2009 and 2008. 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, 2008. 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

7

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

During the fiscal first nine months of 2009, 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, 2008, for a more complete discussion of our estimates and critical accounting policies.

We have performed an evaluation of events that have occurred subsequent to July 31, 2009, and as of September 4, 2009 (the date of the filing of this Form 10-Q). There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the consolidated financial statements as of or for the three- and nine-month periods ended July 31, 2009.

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

During the fiscal third quarter of 2009, we recorded out-of-period adjustments for cost of sales errors that originated prior to fiscal 2009 and discovered during the quarter which decreased net income by \$3.6 million in the fiscal quarter. Based upon an evaluation of all relevant quantitative and qualitative factors, and after considering the provisions of ASC 270-10-45-16, *Accounting Changes in Interim Periods* and ASC 250, *Accounting Changes and Error Corrections*, that incorporates SEC Staff Accounting Bulletin (SAB) No. 99, *Materiality* and SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, the Company does not believe that the effects of the out-of-period adjustments are material to its estimated full-year 2009 financial results. We also do not believe that the out-of-period adjustments, individually or in the aggregate, are material to any previously issued consolidated financial statements. Because the out-of-period adjustments, both individually or in the aggregate, were not material to any of the prior year's consolidated financial statements and are not expected to be material to our estimated full-year 2009 financial results, the out-of-period adjustments were recorded in our consolidated financial statements for the fiscal third quarter of 2009. As a result of all of these factors, the Company has not restated our previously issued annual consolidated financial statements or interim financial data.

We have recorded a reclassification in our net sales and cost of sales in our Consolidated Statements of Income, revising the amounts originally reported in our Annual Report on Form 10-K for the fiscal year ended October 31, 2008, and our Quarterly Reports on Form 10-Q for the periods ended January 31, 2008, April 30, 2008 and July 31, 2008. The reclassification, which does not impact our gross profit, conforms the prior period net sales and cost of sales to the current period's presentation, in which the gains and losses from derivatives designed as effective hedges are recorded in net sales and cost of sales, depending on the nature of the underlying transaction, as compared to previously, when these gains and losses were designated to be recorded in cost of sales.

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 and Fair Value Measurements.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

**New Accounting Pronouncements**

On May 1, 2009, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10-65, formerly FASB Staff Position (FSP) FAS 157-4, *Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. ASC 820-10-65 provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset/liability has significantly decreased. It also provides guidance on identifying circumstances that indicate a transaction is not orderly. In addition, ASC 820-10-65 requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques. The application of the ASC 820-10-65 did not have an effect on our consolidated net earnings, cash flows or financial position.

On May 1, 2009, the Company adopted ASC 825-10-65, formerly FSP FAS 107-1 and Accounting Principles Board Opinions No. 28-1, *Interim Disclosure about Fair Value of Financial Instruments*. ASC 825-10-65 requires interim disclosures regarding the fair values of financial instruments that are within the scope of ASC 825, formerly Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about the Fair Value of Financial Instruments*. Additionally, ASC 825-10-65 requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments on an interim basis as well as changes of the methods and significant assumptions from prior periods. The application of ASC 825-10-65 did not have an effect on our consolidated net earnings, cash flows or financial position.

In May 2009, the FASB issued ASC 825, formerly SFAS No. 165, *Subsequent Events*, which established accounting principles and disclosure requirements for subsequent events. We adopted ASC 825 during the fiscal third quarter of 2009, and the adoption had no effect on our consolidated net earnings, cash flows or financial position.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (SFAS 166), which amends the derecognition guidance in FASB Statement No. 140 and eliminates the exemption from consolidation for qualifying special-purpose entities. The Company does not anticipate the adoption of SFAS 166, which is effective for the Company for the fiscal year beginning on November 1, 2010, will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167), which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under FASB Interpretation No. 46(R). The Company does not anticipate the adoption of SFAS 167, which is effective for the Company for the fiscal year beginning on November 1, 2010, will have a material impact on our consolidated financial statements.

---

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

In June 2009, the FASB established that the FASB Accounting Standards Codification (Codification) will become the single official source of authoritative US GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related accounting literature. Thereby, only one level of authoritative US GAAP will exist, and all other literature will be considered non-authoritative.

The Codification does not change US GAAP. The Codification becomes effective for interim and annual periods ending on or after September 15, 2009. The Codification is effective for the Company beginning in the fiscal fourth quarter of 2009, and we do not anticipate the adoption to have a material impact on our consolidated financial statements.

Note 2. Acquisition and Restructuring Costs

**Restructuring Costs**

2009 CooperVision Manufacturing Restructuring

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 570 employees. The closure of the Norfolk plant that manufactures about 7% of CooperVision's annual lens production is primarily the result of increased manufacturing efficiencies gained over the last year. No additional hires are anticipated in Puerto Rico or the UK as part of this plan.

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

We estimate that the total restructuring costs under this plan will be approximately \$25 million, with about \$17 million associated with assets, including accelerated depreciation and facility lease and contract termination costs, and about \$8 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 three- and nine-month periods ended July 31, 2009, we reported \$4.1 million in cost of sales, and as of July 31, 2009, the total accrued restructuring liability, recorded in other current liabilities, was \$4.1 million.

Critical Activity Restructuring

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 involves 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

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

number of positions are being eliminated across certain business functions and geographic regions. The Company anticipates the Critical Activity restructuring plan will be completed in our fiscal fourth quarter of 2009.

We estimate that the total restructuring costs under this plan will be approximately \$3.9 million, primarily severance and benefit costs, and will be reported as cost of sales or restructuring costs in our Consolidated Statements of Income. In the nine-month period ended July 31, 2009, we reported \$0.5 million in cost of sales and \$3.4 million in restructuring costs.

Restructuring costs:

	<b>Balance at Beginning of Period</b>	<b>Additions Charged to Costs and Expenses</b>	<b>Payments</b>	<b>Balance at end of Period</b>
	(In million)			
Three-month period ended January 31, 2009	\$	\$ 3.6	\$	\$ 3.6
Three-month period ended April 30, 2009	\$ 3.6	\$	\$ 1.0	\$ 2.6
Three-month period ended July 31, 2009	\$ 2.6	\$ 0.3	\$ 2.3	\$ 0.6

**Accrued Acquisition Costs**

When acquisitions are recorded, we accrue for the estimated direct costs in accordance with applicable accounting guidance regarding the recognition of liabilities in connection with a purchase business combination of severance and plant/office closure costs of the acquired business. These estimated costs are based on management's assessment of planned exit activities. In addition, we also accrue for costs directly associated with acquisitions, including legal, consulting, deferred payments and due diligence.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Below is a summary of activity related to accrued acquisition costs for the nine months ended July 31, 2009. Net additions include \$0.8 million from a recent acquisition offset by a \$1.9 million reduction to our accrued legal costs related to our acquisition of Ocular Sciences, Inc. based on a settlement agreement reached in our fiscal second quarter of 2009. This adjustment was included in the determination of net income as an increase for the three months ended April 30, 2009.

Description	Balance October 31, 2008	Net Additions	Payments	Balance July 31, 2009
		(In thousands)		
Severance	\$ 2,683	\$	\$ 433	\$ 2,250
Plant shutdown, legal and other	3,635	(1,054)	698	1,883
	\$ 6,318	\$ (1,054)	\$ 1,131	\$ 4,133

Note 3. Inventories

	July 31, 2009	October 31, 2008
	(In thousands)	
Raw materials	\$ 51,904	\$ 45,377
Work-in-process	6,908	8,399
Finished goods	218,035	229,678
	\$ 276,847	\$ 283,454

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.

Note 4. Intangible Assets**Goodwill**

	CVI	CSI	Total
	(In thousands)		
Balance as of November 1, 2007	\$ 1,081,291	\$ 208,293	\$ 1,289,584
Net reductions during the year ended October 31, 2008	(409)	(542)	(951)
Translation	(36,820)	(114)	(36,934)
Balance as of October 31, 2008	1,044,062	207,637	1,251,699
Net additions during the nine-month period ended July 31, 2009	288	(10)	278
Translation	8,717	99	8,816
Balance as of July 31, 2009	\$ 1,053,067	\$ 207,726	\$ 1,260,793





**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

The Company performed its annual impairment test during the third quarter of 2009, and our analysis indicated that we had no impairment of goodwill. The fair value of our reporting units is determined using either the income or the market valuation approach or a combination thereof. Under the income approach, 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. Under the market approach, the value of the reporting unit is based on an analysis that compares the value of the reporting unit to values of publicly traded companies in similar lines of business. In the application of the income and market valuation approaches, 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.

**Other Intangible Assets**

	As of July 31, 2009		As of October 31, 2008	
	Gross Carrying Amount	Accumulated Amortization & Translation	Gross Carrying Amount	Accumulated Amortization & Translation
	(In thousands)			
Trademarks	\$ 2,907	\$ 940	\$ 2,907	\$ 821
Technology	91,014	41,900	90,337	36,006
Shelf space and market share	87,866	28,409	87,177	22,909
Licenses, distribution rights and other	17,485	8,214	17,178	7,276
	199,272	\$ 79,463	197,599	\$ 67,012
Less accumulated amortization and translation		79,463		67,012
Other intangible assets, net	\$ 119,809		\$ 130,587	

We estimate that amortization expense will be about \$15.9 million per year in the five-year period ending October 31, 2013.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 5. Debt

	July 31, 2009	October 31, 2008
	(In thousands)	
<b>Short-term:</b>		
Overdraft and other credit facilities	\$ 38,448	\$ 43,013
<b>Long-term:</b>		
Senior unsecured revolving line of credit	\$ 452,700	\$ 511,400
7.125% senior notes	339,000	350,000
Capital lease and other	8,825	381
	<b>\$ 800,525</b>	<b>\$ 861,781</b>

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 wrote off about \$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 million revolving line of credit.

Note 6. Derivative Instruments and Fair Value Measurements

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 derivatives instruments such as foreign exchange forward contracts and cross currency swaps. The gains and losses on these derivatives are intended to at least partially offset the transaction gains and losses recognized in earnings. We do not enter into derivatives for speculative purposes. Under ASC 815, *Derivatives and Hedging (ASC 815)*, all derivatives are recorded on the balance sheet at fair value. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting.

Through the normal course of its business activities, the Company recognizes that it is exposed to foreign exchange risks. Our primary objective is to protect the 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. To meet this objective, business exposures to foreign exchange risks must be identified, measured and minimized using the most effective and efficient methods to eliminate, reduce or transfer such exposures.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Exposures are reduced whenever possible by taking advantage of offsetting payable and receivable balances and netting revenues against expenses, also referred to as natural hedges. Management employs the use of foreign currency derivative instruments to manage a portion of the remaining foreign exchange risk. Foreign currency derivatives may be used to protect against exposures resulting from forecasted non-functional currency denominated revenues 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 varies with the London Interbank Offered Rate. To mitigate this risk, we hedge portions of our variable rate debt by swapping those portions to fixed rates.

The Company only enters into derivative financial instruments with institutions that have an International Swap Dealers Association agreement in place. Our derivative financial instruments do not contain credit risk related contingent features or requirements to post collateral. On an ongoing basis, the Company monitors counterparty credit ratings. The Company considers 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.

**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.

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 forecasted cost of sales, and certain 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 entered into foreign currency forward contracts of approximately \$40 million in the fiscal third quarter of 2009, \$250 million in the fiscal second quarter, \$147 million in the fiscal fourth quarter of 2008, \$307 million in the fiscal third quarter of 2008, and \$16 million in the fiscal second quarter of 2008. These derivatives were accounted for as cash flow hedges under ASC 815 and were expected to be effective through their maturities.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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 are 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.

As of July 31, 2009, all outstanding cash flow hedging derivatives had maturities of less than 24 months. For such hedges, the effective portion of the contracts' gains or losses resulting from changes in fair value of these hedges is initially reported as a component of accumulated OCI in stockholder's equity until the underlying hedged item is reflected in our Consolidated Statements of Income, at which time the effective amount in OCI is reclassified to either net sales or cost of sales in our Consolidated Statements of Income. Over the next twelve months, we expect to reclassify losses of approximately \$8.5 million to our Consolidated Statements of Income.

We record any ineffectiveness and any excluded components of the hedge immediately to other income or expense in our Consolidated Statements of Income. We calculate hedge effectiveness at a minimum each fiscal quarter. Monthly, we evaluate hedge effectiveness prospectively and retrospectively, excluding time value, using regression as well as other timing and probability criteria required by ASC 815. 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 reclassified at that time from OCI to other income or expense in our Consolidated Statements of Income.

**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, 2009, all outstanding balance sheet hedging derivatives had maturities of less than 24 months. The change in fair value of these derivatives is recognized in other income or expense.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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 related borrowings 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**

On January 31, 2007, the Company refinanced its syndicated bank credit facility with a \$650 million syndicated Senior Unsecured Revolving Line of Credit (Revolver) and \$350 million aggregate principal amount of 7.125% Senior Notes. As part of this new debt structure, the Company terminated an interest rate swap with a notional value of \$125 million on January 30, 2007. This interest rate swap was set to mature on February 9, 2009, and the Company settled the interest rate swap and received \$1.1 million from the counterparty. As a result of the termination of the interest rate swap, the Company realized a gain of approximately \$1.0 million. The Company amortizes this gain from OCI to interest expense over the original life of the interest rate swap. The last of the effective gains related to the termination of the swap, approximately \$33 thousand, were amortized from OCI to interest expense during the fiscal first half of 2009. Effective amounts are amortized to interest expense as the related hedged expense is incurred.

On May 3, 2007, we terminated two floating-to-fixed interest rate swaps with notional values of \$125 million that were set to mature on February 7, 2008. As a result of these swap terminations, the Company realized a gain of approximately \$2.4 million to be amortized from OCI to interest expense over the original life of these two interest rate swaps. During fiscal 2008, approximately \$0.8 million of effective gains related to the termination of these swaps were amortized from OCI to interest expense, bringing the remaining effective amount in OCI to zero.

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

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

On September 19, 2007, the Company entered into a floating-to-fixed interest rate swap with a notional value of \$25 million and a maturity of September 21, 2009. This swap serves to fix \$25 million of floating rate debt under the Revolver at a rate of 4.53%.

On October 22, 2008, the Company entered into three additional floating-to-fixed interest rate swaps. These new interest rate swaps with notional values totaling \$175 million, serve to fix the floating rate debt under the Revolver for terms between 16 and 24 months with fixed rates between 2.40% and 2.53%.

All eight outstanding interest rate swaps hedge variable interest payments related to the Company's \$650 million credit facility by exchanging variable rate interest risk for a fixed interest rate. The Company has qualified and designated these swaps under ASC 815 as cash flow hedges and records the offset of the cumulative fair market value (net of tax effect) to OCI in our Consolidated 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. No material ineffectiveness was recognized on the eight outstanding interest rate swaps during the current fiscal year. As of July 31, 2009, the fair value of the eight outstanding swaps, approximately \$13.2 million, was recorded as a liability, and the effective offset was recorded in OCI in our Consolidated Balance Sheet. We expect to reclassify \$11.3 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 Balance Sheet as of July 31, 2009, was as follows:

<b>Fair Values of Derivative Instruments</b>					
<b>Derivative Assets</b>		<b>Derivative Liabilities</b>			
<b>Balance</b>			<b>Balance</b>		
<b>Sheet</b>			<b>Sheet</b>	<b>Fair Value</b>	
<b>Location</b>	<b>Fair Value</b>			<b>Location</b>	
<b>(In millions)</b>					
<b>Derivatives designated as hedging instruments under ASC 815</b>					
Interest rate contracts	Prepaid expense and other current assets	\$		Other current liabilities	\$ 5.1
Interest rate contracts	Other assets			Accrued pension liability and other	8.1
Foreign exchange contracts	Prepaid expense and other current assets	10.0		Other current liabilities	5.0
Foreign exchange contracts	Other assets	3.9		Accrued pension liability and other	2.2
Total derivatives designated as hedging instruments under ASC 815		\$ 13.9			\$ 20.4
<b>Derivatives not designated as hedging instruments under ASC 815</b>					
Foreign exchange contracts	Prepaid expense and other current assets	\$ 1.7		Other current liabilities	\$ 0.5
Foreign exchange contracts	Other assets			Accrued pension liability and other	
Total derivatives not designated as hedging instruments under ASC 815		\$ 1.7			\$ 0.5
<b>Total derivatives</b>		<b>\$ 15.6</b>			<b>\$ 20.9</b>

**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 Statement of Income

For the Nine Months Ended July 31, 2009

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) 2009	Location of	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2009 (In millions)	Location of	Amount of Gain or (Loss) Recognized in Income Due to Ineffectiveness 2009	Location of	Amount of Gain or (Loss) Recognized in Income and Excluded from Effectiveness Testing
		Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Gain or (Loss) Recognized in Income on Derivative Ineffectiveness		Gain or (Loss) Recognized in Income and Excluded from Effectiveness Testing	
Interest rate contracts	\$ (12.2)	Interest expense	\$ (9.1)	Other income/ (expense)	\$	Other income/ (expense)	\$
Foreign exchange contracts	(11.1)	Net sales	18.9	Other income/ (expense)	(0.1)	Other income/ (expense)	1.2
Foreign exchange contracts		Cost of sales	(28.4)	Other income/ (expense)		Other income/ (expense)	
Total	\$ (23.3)		\$ (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	Location of Gain or (Loss) Recognized in Income on	Amount of Gain or (Loss) Recognized in
Under ASC 815	Derivative	Income on Derivative 2009 (In millions)
Interest rate contracts	Interest income/(expense)	\$
Foreign exchange contracts	Foreign currency gain/(loss)	
<b>Total</b>		<b>\$</b>

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

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

	<b>Level 2</b> <b>(In thousands)</b>
<b>Assets:</b>	
Foreign exchange contracts	\$ 15,622
<b>Liabilities:</b>	
Interest rate swaps	\$ 13,233
Foreign exchange contracts	7,630
	\$ 20,863

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 7. Earnings Per Share

	Three Months		Nine Months Ended	
	Ended July 31, 2009	2008	2009	2008
	(In thousands, except for per share amounts)			
Net income	\$ 21,908	\$ 17,879	\$ 70,430	\$ 35,997
Add interest charge applicable to convertible debt, net of tax		348		1,394
Income for calculating diluted earnings per common share	\$ 21,908	\$ 18,227	\$ 70,430	\$ 37,391
<b>Basic:</b>				
Weighted average common shares	45,180	44,993	45,164	44,974
Basic earnings per common share	\$ 0.48	\$ 0.40	\$ 1.56	\$ 0.80
<b>Diluted:</b>				
Weighted average common shares	45,180	44,993	45,164	44,974
Effect of dilutive stock options	514	196	204	196
Shares applicable to convertible debt		1,745		2,307
Diluted weighted average common shares	45,694	46,934	45,368	47,477
Diluted earnings per common share	\$ 0.48	\$ 0.39	\$ 1.55	\$ 0.79

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

	Three Months Ended		Nine Months Ended	
	2009	2008	2009	2008
	(In thousands, except exercise prices)			
Numbers of stock option shares excluded	4,014	4,045	4,505	4,045
Range of exercise prices	\$ 27.06-\$80.51	\$ 37.90-\$80.51	\$ 22.44-\$80.51	\$ 37.90-\$80.51
Number of restricted stock units excluded	328		328	261



**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, 2008. 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, 2009	2008	July 31, 2009	2008
	(In millions)			
Selling, general and administrative expense	\$ 1.9	\$ 3.0	\$ 8.9	\$ 10.0
Cost of sales	0.3	0.2	0.9	1.0
Research and development expense	0.2		0.6	(0.2)
Capitalized in inventory	0.3	0.2	0.9	1.0
<b>Total compensation expense</b>	<b>\$ 2.7</b>	<b>\$ 3.4</b>	<b>\$ 11.3</b>	<b>\$ 11.8</b>
Related income tax benefit	\$ 0.9	\$ 0.8	\$ 4.0	\$ 3.1

**Note 9. Income Taxes**

Cooper's effective tax rate (ETR) (provision for income taxes divided by pretax income) for the first nine months of fiscal 2009 was 14.9%. GAAP requires that the projected fiscal year ETR, plus any discrete items, be included in the year-to-date results. The ETR used to record the provision for income taxes for the nine-month period ended July 31, 2008, was 16.2%. The decrease in the 2009 ETR reflects the shift in the geographic mix of income during the period.

The Company adopted the provisions of ASC 740-10, *Income Taxes*, 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 a result, in fiscal 2008, the Company reduced its net liability for unrecognized tax benefits by \$5.3 million, which was accounted for as an increase to retained earnings. As of November 1, 2008, the Company had total gross unrecognized tax benefits of \$19.4 million. If recognized, \$16.7 million of unrecognized tax benefits would impact the Company's effective tax rate. For the nine-month period ended July 31, 2009, 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, unrecognized tax benefits were reclassified to long-term income taxes payable.

Interest and penalties of \$2.1 million have been reflected as a component of the total liability as of November 1, 2008. It is the Company's policy to recognize as additional income tax expense, the items of interest and penalties directly related to income taxes.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Included in the balance of unrecognized tax benefits at November 1, 2008, is \$2 million to \$3.8 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. This amount represents a decrease in unrecognized tax benefits related to expiring statutes in various jurisdictions worldwide and is comprised of transfer pricing and other items.

As of July 31, 2009, the tax years for which the Company remains subject to U.S. Federal income tax assessment upon examination are 2005 through 2007. The Company remains subject to income tax examinations in other major tax jurisdictions including the United Kingdom, France, Germany and Australia for the tax years 2004 through 2007.

**Note 10. Employee Benefits**

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

In October 2007, we adopted the funded status provision of ASC 715-30, *Compensation - Retirement Benefits Defined Benefit Plans - Pension*, which requires that we recognize the overfunded or underfunded status of our defined benefit postretirement plan as an asset or liability on our October 31, 2007, Consolidated Balance Sheet. Subsequent changes in the funded status are recognized through comprehensive income in the year in which they occur. ASC 715-30 also requires that for fiscal years ending after December 15, 2008, our assumptions used to measure our annual pension expenses be determined as of the balance sheet date and all plan assets and liabilities be reported as of that date. For fiscal years ending October 31, 2008 and prior, the Company's defined benefit postretirement plan used an August 31 measurement date, and all plan assets and obligations were generally reported as of that date.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Cooper's results of operations for the three and nine months ended July 31, 2009 and 2008 reflect the following pension costs.

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2009	2008	2009	2008
	(In thousands)			
Components of net periodic pension cost:				
Service cost	\$ 766	\$ 751	\$ 2,298	\$ 2,252
Interest cost	586	509	1,758	1,527
Expected returns on assets	(577)	(594)	(1,731)	(1,781)
Amortization of prior service cost	7	7	22	22
Amortization of transition obligation	7	7	20	20
Recognized net actuarial loss	9		27	
Net periodic pension cost	\$ 798	\$ 680	\$ 2,394	\$ 2,040

The Company contributed to the pension plan \$0.9 million and \$2.3 million for the three and nine months ended July 31, 2009, respectively, and expects to contribute an additional \$2.7 million in our fiscal fourth quarter of 2009. No pension contributions were made during the first nine months of fiscal 2008.

**Note 11. Cash Dividends**

We paid a semiannual dividend of approximately \$1.4 million or 3 cents per share on February 5, 2009, to stockholders of record on January 19, 2009. We paid another semiannual dividend of approximately \$1.3 million or 3 cents per share on August 5, 2009, to stockholders of record on July 20, 2009.

---

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 12. Contingencies

**Legal Proceedings**

**In re The Cooper Cos., 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.



---

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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 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, the impact of silicone hydrogel lenses and the Company's financial projections. 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. A February 17, 2010, trial date has been set and discovery has commenced. 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. The Company intends to defend this matter vigorously.

**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, Moses Marx, Steven Rosenberg, Stanley Zinberg, Allan Rubenstein, and one former director. 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. Under the existing scheduling order, the Company has until September 12, 2009, to respond to the consolidated amended complaint.

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

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

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

On January 31, 2007, the Company issued \$350 million aggregate principal amount of 7.125% Senior Notes due 2015 (Senior Notes), of which \$339 million are outstanding at July 31, 2009. 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, 2009 and 2008, the Consolidating Condensed Balance Sheets as of July 31, 2009 and October 31, 2008 and the Consolidating Condensed Statements of Cash Flows for the nine months ended July 31, 2009 and 2008 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>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 Statements of Operations**

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidating Entries	Consolidated Total
<b><u>Three Months Ended July 31, 2008</u></b>					
Net sales	\$	\$ 135,671	\$ 178,378	\$ (35,536)	\$ 278,513
Cost of sales		62,649	106,634	(45,867)	123,416
Gross profit		73,022	71,744	10,331	155,097
Operating expenses	6,649	50,730	66,674		124,053
Operating income (loss)	(6,649)	22,292	5,070	10,331	31,044
Interest expense	14,905		361		15,266
Other income (expense), net	8,972	(6,746)	(488)		1,738
Income (loss) before income taxes	(12,582)	15,546	4,221	10,331	17,516
Provision for (benefit from) income taxes	(5,632)	4,426	843		(363)
Net income (loss)	\$ (6,950)	\$ 11,120	\$ 3,378	\$ 10,331	\$ 17,879
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Consolidating Entries	Consolidated Total
<b><u>Nine Months Ended July 31, 2008</u></b>					
Net sales	\$	\$ 374,077	\$ 515,043	\$ (108,587)	\$ 780,533
Cost of sales		170,491	269,951	(107,895)	332,547
Gross profit		203,586	245,092	(692)	447,986
Operating expenses	21,804	149,918	196,803		368,525
Operating income (loss)	(21,804)	53,668	48,289	(692)	79,461
Interest expense	37,331		1,110		38,441
Other income (expense), net	20,842	(12,347)	(6,566)		1,929
Income (loss) before income taxes	(38,293)	41,321	40,613	(692)	42,949
Provision for (benefit from) income taxes	(19,498)	18,487	7,963		6,952
Net income (loss)	\$ (18,795)	\$ 22,834	\$ 32,650	\$ (692)	\$ 35,997



**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
<u>July 31, 2009</u>					
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 552	\$ (481)	\$ 3,719	\$	\$ 3,790
Trade receivables, net		62,329	107,947		170,276
Inventories		113,483	205,337	(41,973)	276,847
Deferred tax asset	1,046	16,858	3,040		20,944
Other current assets	2,444	5,243	39,324	(853)	46,158
<b>Total current assets</b>	<b>4,042</b>	<b>197,432</b>	<b>359,367</b>	<b>(42,826)</b>	<b>518,015</b>
Property, plant and equipment, net	1,429	94,400	512,513		608,342
Goodwill	116	669,125	591,552		1,260,793
Other intangibles, net		70,845	48,964		119,809
Deferred tax asset	63,009	(36,506)	2,352		28,855
Other assets	1,682,867	20,990	18,432	(1,676,668)	45,621
	\$ 1,751,463	\$ 1,016,286	\$ 1,533,180	\$ (1,719,494)	\$ 2,581,435
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Short-term debt	\$	\$ 2,319	\$ 36,129	\$	\$ 38,448
Other current liabilities	25,367	40,915	107,403		173,685
<b>Total current liabilities</b>	<b>25,367</b>	<b>43,234</b>	<b>143,532</b>		<b>212,133</b>
Long-term debt	791,700		8,825		800,525
Deferred tax liability			13,064		13,064
Intercompany and other liabilities	(20,226)	(205,030)	266,592		41,336
<b>Total liabilities</b>	<b>796,841</b>	<b>(161,796)</b>	<b>432,013</b>		<b>1,067,058</b>
Stockholders' equity	954,622	1,178,082	1,101,167	(1,719,494)	1,514,377
	\$ 1,751,463	\$ 1,016,286	\$ 1,533,180	\$ (1,719,494)	\$ 2,581,435

**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, 2008</b>					
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 20	\$ (846)	\$ 2,770	\$	\$ 1,944
Trade receivables, net		65,185	93,973		159,158
Inventories		150,464	180,716	(47,726)	283,454
Deferred tax asset	1,440	22,038	2,859		26,337
Other current assets	2,141	6,445	46,553		55,139
<b>Total current assets</b>	<b>3,601</b>	<b>243,286</b>	<b>326,871</b>	<b>(47,726)</b>	<b>526,032</b>
Property, plant and equipment, net	1,635	94,353	506,666		602,654
Goodwill	116	669,135	582,448		1,251,699
Other intangibles, net		77,872	52,715		130,587
Deferred tax asset	57,944	(34,277)	1,978		25,645
Other assets	1,684,549	18,570	24,548	(1,676,668)	50,999
	\$ 1,747,845	\$ 1,068,939	\$ 1,495,226	\$ (1,724,394)	\$ 2,587,616
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Short-term debt	\$ 709	\$ 1,682	\$ 40,622	\$	\$ 43,013
Other current liabilities	19,074	43,856	149,464		212,394
<b>Total current liabilities</b>	<b>19,783</b>	<b>45,538</b>	<b>190,086</b>		<b>255,407</b>
Long-term debt	861,400		381		861,781
Deferred tax liability		1	15,195		15,196
Intercompany and other liabilities	(95,367)	(124,219)	257,742		38,156
<b>Total liabilities</b>	<b>785,816</b>	<b>(78,680)</b>	<b>463,404</b>		<b>1,170,540</b>
Stockholders' equity	962,029	1,147,619	1,031,822	(1,724,394)	1,417,076
	\$ 1,747,845	\$ 1,068,939	\$ 1,495,226	\$ (1,724,394)	\$ 2,587,616

**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, 2009</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	(43)	(15,189)	(58,710)		(73,942)
Acquisitions of businesses, net of cash acquired	(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 (decrease) 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)

**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, 2008</b>					
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	\$ (28,852)	\$ (660)	\$ 85,033	\$	\$ 55,521
Cash flows from investing activities:					
Purchases of property, plant and equipment	(60)	(17,180)	(85,042)		(102,282)
Acquisitions of businesses, net of cash acquired	(101)	(1,628)	(1,982)		(3,711)
Intercompany (investment in subsidiaries)	(31,193)			31,193	
Net cash (used in) provided by investing activities	(31,354)	(18,808)	(87,024)	31,193	(105,993)
Cash flows from financing activities:					
Net (repayments) proceeds of short-term debt		110	(9,734)		(9,624)
Intercompany proceeds (repayments)		19,025	12,168	(31,193)	
Net proceeds of long-term debt	58,500				58,500
Dividends on common stock	(2,699)				(2,699)
Excess tax benefit from share-based compensation arrangements	1,758				1,758
Proceeds from exercise of stock options	2,693				2,693
Net cash provided by (used in) financing activities	60,252	19,135	2,434	(31,193)	50,628
Effect of exchange rate changes on cash and cash equivalents			56		56
Net increase (decrease) in cash and cash equivalents	46	(333)	499		212
Cash and cash equivalents at the beginning of the period	83	489	2,654		3,226
Cash and cash equivalents at the end of the period	\$ 129	\$ 156	\$ 3,153	\$	\$ 3,438

**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.

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2009	2008	2009	2008
	(In thousands)			
Net sales to external customers:				
CooperVision net sales:				
Spherical soft lens	\$ 145,167	\$ 142,192	\$ 398,601	\$ 394,515
Toric soft lens	74,982	83,398	202,979	227,235
Multifocal soft lens	16,633	15,556	45,167	42,007
Other eye care products and other	4,121	(5,332)	23,182	(6,837)
Total CooperVision net sales	240,903	235,814	669,929	656,920
CooperSurgical net sales	44,327	42,699	127,037	123,613
Total net sales to external customers	\$ 285,230	\$ 278,513	\$ 796,966	\$ 780,533
Operating income (loss):				
CVI	\$ 29,964	\$ 29,251	\$ 96,953	\$ 78,298
CSI	10,664	8,442	31,046	22,967
Corporate	(6,703)	(6,649)	(20,086)	(21,804)
Total operating income	33,925	31,044	107,913	79,461
Interest expense	11,085	15,266	33,372	38,441
Other (expense) income, net	(155)	1,738	8,249	1,929
Income before income taxes	\$ 22,685	\$ 17,516	\$ 82,790	\$ 42,949

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Concluded

(Unaudited)

	July 31, 2009	October 31, 2008
	(In thousands)	
Identifiable assets:		
CVI	\$ 2,213,387	\$ 2,214,609
CSI	309,663	312,145
Headquarters	58,385	60,862
<b>Total</b>	<b>\$ 2,581,435</b>	<b>\$ 2,587,616</b>

Geographic information:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2009	2008	2009	2008
	(In thousands)			
Net sales to external customers by country of domicile:				
United States	\$ 136,039	\$ 134,572	\$ 381,296	\$ 371,749
Europe	89,911	91,058	252,786	255,381
Rest of world	59,280	52,883	162,884	153,403
<b>Total</b>	<b>\$ 285,230</b>	<b>\$ 278,513</b>	<b>\$ 796,966</b>	<b>\$ 780,533</b>

	July 31, 2009	October 31, 2008
	(In thousands)	
Long-lived assets by country of domicile:		
United States	\$ 378,624	\$ 375,642
Europe	222,135	219,783
Rest of world	7,583	7,229
<b>Total</b>	<b>\$ 608,342</b>	<b>\$ 602,654</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 revenue, anticipated market conditions, planned product launches, CooperVision's manufacturing restructuring 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, 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.

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

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

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.

New competitors, product innovations or technologies.

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.

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

Legal costs, insurance expenses, settlement costs and the risk of an adverse decision or settlement related to claims involving product liability or patent protection (including risks with respect to the ultimate validity and enforceability of the Company's patent applications and patents and the possible infringement of the intellectual property of others).

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations, Continued

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

Interest rate and foreign currency exchange rate fluctuations.

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

The requirement to provide for a significant liability or to write off, or accelerate depreciation on, a significant asset, including goodwill.

Dilution to earnings per share from acquisitions or issuing stock.

Changes in tax laws or their interpretation and changes in effective tax rates, including changes that result from shifts in the Company's geographic profit mix.

Changes in the Company's expected utilization of recognized net operating loss carryforwards.

Changes in accounting principles or estimates.

Delays related to implementation or disruptions of information technology systems covering the Company's businesses, or other events which could result in management having to report a material weakness in the effectiveness of the Company's internal control over financial reporting in its Quarterly Report on Form 10-Q and Annual Report on Form 10-K filings.

Environmental risks, including significant environmental cleanup costs.

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, 2008, 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 fiscal third quarter of 2009 and compare them with the same period of fiscal 2008. We discuss our cash flows and current financial condition under Capital Resources and Liquidity.

**Third Quarter Highlights**

Net sales of \$285.2 million, up 2%, 4% in constant currency.

Gross margin 51% of revenue down from 56%.

Operating income up 9% to \$33.9 million.

Diluted earnings per share of 48 cents, up from 39 cents per share.

Operating cash flow \$75.9 million, up 72%.

**Nine-Month Highlights**

Net sales of \$797.0 million, up 2%, 4% in constant currency.

Gross margin 55% of revenue down from 57%.

Operating income up 36% to \$107.9 million.

Diluted earnings per share of \$1.55, up from 79 cents per share.

Operating cash flow \$144.7 million, up 161%.

**Outlook**

We believe that CVI will continue to compete successfully in the worldwide contact lens market with its 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 market demographics are favorable with the reported incidence of myopia continuing to increase

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

worldwide and with the teenage population in the United States, the age when most contact lens wear begins, projected to grow over the next two decades. CVI expects greater market penetration in Europe and Asia as we roll out new products and expand our presence in those regions.

Sales of contact lenses utilizing silicone hydrogel materials, a major product material in the industry, have grown significantly. The Company launched Biofinity® sphere in 2007 and Avaira® sphere in 2008, both silicone hydrogel contact lens products. While customer reaction for these products has been favorable, our future growth may be limited by our late entry into the silicone hydrogel market. In addition to spheres, competitive silicone hydrogel toric products are making substantial gains in market share and represent a risk to our toric business. We launched a monthly silicone hydrogel toric lens, under the Biofinity label, in the first calendar quarter of 2009 and plan to launch a two-week silicone hydrogel toric, under the Avaira label, in fiscal year 2010 that will allow us to compete in this market shift to silicone hydrogel torics. Our ability to succeed 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 Condition****and Results of Operations, Continued**

We launched Proclear® 1 Day in Japan in the first calendar quarter of 2009. We are also in the process of developing a number of new contact lens products to enhance CVI's broad and competitive 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 toric and multifocal lenses.

As to the Company overall, we remain optimistic about the long-term prospects for the worldwide contact lens and women's healthcare markets. Recent events affecting the economy as a whole, including the uncertainty and instability of the United States and international credit markets and ongoing recessionary pressures in the United States and globally, continue to represent a risk to our forecasted performance for fiscal year 2009 and beyond.

Regarding capital resources, we believe that cash and cash equivalents on hand of \$3.8 million plus cash from operating activities and existing credit facilities will fund future operations, capital expenditures, cash dividends and small acquisitions.

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

	Percent of Sales Three Months Ended July 31,			Percent of Sales Nine Months Ended July 31,		
	2009	2008	% Change	2009	2008	% Change
Net sales	100%	100%	2%	100%	100%	2%
Cost of sales	49%	44%	12%	45%	43%	8%
Gross profit	51%	56%	(6)%	55%	57%	(2)%
Selling, general and administrative expense	35%	40%	(10)%	36%	42%	(12)%
Research and development expense	3%	3%	(14)%	3%	3%	(5)%
Amortization of intangibles	1%	2%	1%	2%	2%	(1)%
Operating income	12%	11%	9%	14%	10%	36%

**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**

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

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

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 \$6.7 million or 2% and \$16.5 million or 2% in the three and nine months ended July 31, 2009:

	Three Months Ended July 31,			Nine Months Ended July 31,		
	2009	2008	% Change	2009	2008	% Change
	(\$ in millions)					
CVI	\$ 240.9	\$ 235.8	2%	\$ 669.9	\$ 656.9	2%
CSI	44.3	42.7	4%	127.1	123.6	3%
	\$ 285.2	\$ 278.5	2%	\$ 797.0	\$ 780.5	2%

**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.

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.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

CVI's product lines of toric and multifocal lenses, PC Technology brand spherical lenses, silicone hydrogel spherical lenses and single-use spherical lenses position us 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. However, it is important that CVI develop a full range of toric and multifocal silicone hydrogel products due to increased pressure from the launch of silicone hydrogel toric products by its major competitors. CVI launched Biofinity toric, a silicone hydrogel toric lens in the first calendar quarter of 2009. CVI also plans to launch a second silicone hydrogel toric lens, Avaira toric, in fiscal year 2010.

Contact lens revenue includes sales of conventional, disposable, long-term extended wear lenses and single-use lenses, some of which are aspherically 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.

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 Market**

	Three Months Ended July 31,			Nine Months Ended July 31,		
	2009	2008	% Change	2009	2008	% Change
	(\$ in millions)					
Americas	\$ 105.7	\$ 106.2		\$ 289.6	\$ 288.1	1%
Europe	90.7	91.1	(1)%	254.4	256.0	(1)%
Asia Pacific	44.5	38.5	16%	125.9	112.8	12%
	\$ 240.9	\$ 235.8	2%	\$ 669.9	\$ 656.9	2%

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations, Continued

CVI's worldwide net sales grew 2% in the three- and nine-month periods, with 3% and 4% growth in constant currency, respectively. Americas net sales were flat in the three-month period and grew 1%, 2% in constant currency, in the nine-month period, primarily due to market gains of CVI's silicone hydrogel lenses, Biofinity and Avaira, PC Technology lenses and single-use lenses. Europe net sales declined 1% in the three- and nine-month periods, but grew 7% and 6% in constant currency, respectively, driven by increases in sales of Biofinity, Avaira and Proclear 1 Day lenses. Net sales to the Asia Pacific region grew 16% and 12% in the three- and nine-month periods, 5% and 6% in constant currency, primarily due to significant sales growth of single-use and other disposable sphere products, disposable toric products and Biofinity lenses.

Net sales growth in the quarter includes increases in single-use spheres up 8%, at \$50.1 million, all disposable spheres up 3% and total spheres up 2%. Silicone hydrogel spheres had sales of \$28.2 million primarily in Europe and the United States. Our newly introduced silicone hydrogel toric lenses had sales of \$3.6 million, and single-use torics grew 68% to \$3.9 million but total toric sales declined 10% due primarily to a continuing trend in the market toward silicone hydrogel toric lenses. Disposable multifocal sales grew 8% to \$16.3 million. Older conventional lens products declined 22%, and cosmetic lenses declined 12%. Proclear products continued global market share gains as Proclear toric sales increased 1% to \$20.7 million, Proclear 1 Day spheres increased 36% to \$13.3 million and Proclear multifocal lenses, including Biomedics XC, increased 13% to \$14.0 million.

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

**CSI Net Sales**

CSI's net sales increased 4% and 3% in the three- and nine-month periods to \$44.3 million and \$127.1 million, respectively. Sales of products marketed directly to hospitals grew 10% and now represent 33% of CSI's net sales. Women's healthcare products used primarily by obstetricians and gynecologists generate 96% of CSI's net sales. The balance are sales of medical devices outside of women's healthcare, which CSI does not actively market. While unit growth and product mix have influenced net sales growth, average realized prices by product have not materially influenced net sales growth.

**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

Gross profit as a percentage of net sales (margin) was:

	Margin Three Months Ended July 31,		Margin Nine Months Ended July 31,	
	2009	2008	2009	2008
CVI	49%	55%	54%	57%
CSI	62%	59%	62%	59%
Consolidated	51%	56%	55%	57%

CVI's margin was 49% and 54% for the three- and nine-month periods of fiscal 2009 compared with 55% and 57% for the same periods last year. The decline is largely attributed to costs associated with inventory and equipment write offs and idle equipment. Also, CVI initiated a restructuring plan to relocate contact lens manufacturing primarily from Norfolk, Virginia, to existing manufacturing operations in Juana Diaz, Puerto Rico, and Hamble, UK. In the fiscal third quarter of 2009, costs associated with this manufacturing restructuring plan that totaled \$4.1 million, primarily severance charges, were recorded as cost of sales and impacted gross margins. As discussed below, we expect to incur similar restructuring costs through the fiscal first quarter of 2011.

CSI's margin was 62% for the three- and nine-month periods of fiscal 2009 compared with 59% for the same periods last year. The increase is a result of manufacturing efficiencies and a changing product mix including higher margin products marketed directly to hospitals that represent 33% of net sales in the current period compared to 31% in the same period of 2008.

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

	Three Months Ended July 31,					Nine Months Ended July 31,				
	2009	% Net Sales	2008	% Net Sales	% Change	2009	% Net Sales	2008	% Net Sales	% Change
	(\$ in millions)									
CVI	\$ 79.2	33%	\$ 89.2	38%	(11)%	\$ 228.1	34%	\$ 262.9	40%	(13)%
CSI	14.1	32%	14.8	35%	(4)%	40.5	32%	43.3	35%	(6)%
Headquarters	6.7		6.6		1%	20.1		21.8		(8)%
	\$ 100.0	35%	\$ 110.6	40%	(10)%	\$ 288.7	36%	\$ 328.0	42%	(12)%

In the fiscal third quarter of 2009, consolidated SGA decreased by 10% and as a percentage of net sales, decreased to 35% from 40% in the third quarter of 2008 and decreased to 36% from 42% for the nine-month period.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations, Continued

CVI's SGA decreased 11% in the fiscal third quarter, primarily due to increased efficiencies as a result of the rationalization of distribution centers completed in fiscal 2008 and decreased marketing expenses from the prior year that included several new product launches. SGA costs also decreased as a result of the Critical Activity restructuring plan, discussed below, initiated in the fiscal first quarter of 2009. SGA as a percentage of net sales decreased to 33% in the period from 38% in 2008.

CSI's SGA decreased 4% at 32% of net sales and 6% at 32% of net sales in the three- and nine-month periods of fiscal 2009, respectively, from 35% of net sales in the same periods last year. Marketing, distribution and other general and administration costs decreased primarily due to improved efficiencies from a recent acquisition and decreased legal and stock-based compensation expenses.

Corporate headquarters expenses increased 1% to \$6.7 million and decreased 8% to \$20.1 million in the three- and nine-month period of fiscal 2009. The decrease year to date is primarily due to the \$1.9 million reduction of accrued legal costs related to our acquisition of Ocular Sciences, Inc. based on a settlement agreement reached in our fiscal second quarter of 2009.

**Research and Development Expense**

CVI's research and development expenditures were 3% of net sales in the three-month period, down 21% from the same period last year. 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. During the nine-month period ended July 31, 2009, excluding the charge, CVI's research and development expenditures were 3% of net sales at \$18.6 million, down 18% over the same period of fiscal 2008. 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 expenditures were 3% of net sales for the three- and nine-month periods, at \$1.5 million and \$3.4 million, respectively, compared to 3% of net sales in both periods of fiscal 2008. 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.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations, Continued

**Restructuring Costs**

2009 CooperVision Manufacturing Restructuring

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 570 employees. The closure of the Norfolk plant that manufactures about 7% of CooperVision's annual lens production is primarily the result of increased manufacturing efficiencies gained over the last year. No additional hires are anticipated in Puerto Rico or the UK as part of this plan.

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

We estimate that the total restructuring costs under this plan will be approximately \$25 million, with about \$17 million associated with assets, including accelerated depreciation and facility lease and contract termination costs, and about \$8 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 three- and nine-month periods ended July 31, 2009, we reported \$4.1 million in cost of sales and as of July 31, 2009, the total accrued restructuring liability, recorded in other current liabilities, was \$4.1 million.

Critical Activity Restructuring

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 involves 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 are being eliminated across certain business functions and geographic regions. The Company anticipates the Critical Activity restructuring plan will be completed in our fiscal fourth quarter of 2009.

We estimate that the total restructuring costs under this plan will be approximately \$3.9 million, primarily severance and benefit costs, and will be reported as cost of sales or restructuring costs in our Consolidated Statements of Income. In the nine-month period ended July 31, 2009, we reported \$0.5 million in cost of sales and \$3.4 million in restructuring costs and the total accrued restructuring liability as of July 31, 2009, was \$0.6 million.

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 Condition****and Results of Operations, Continued****Operating Income**

Operating income increased by \$3.0 million or 9% and \$28.4 or 36% in the three- and nine-month periods, respectively:

	Three Months Ended July 31,					Nine Months Ended July 31,				
	2009	% Net Sales	2008	% Net Sales	% Change	2009	% Net Sales	2008	% Net Sales	% Change
	(\$ in millions)									
CVI	\$ 30.0	12%	\$ 29.2	12%	2%	\$ 97.0	14%	\$ 78.3	12%	24%
CSI	10.6	24%	8.4	20%	26%	31.0	24%	23.0	19%	35%
Headquarters	(6.7)		(6.6)		(1)%	(20.1)		(21.8)		8%
	\$ 33.9	12%	\$ 31.0	11%	9%	\$ 107.9	14%	\$ 79.5	10%	36%

**Interest Expense**

Interest expense in the fiscal third quarter decreased by \$4.2 million or 27% to 4% of net sales from 5% in the prior year, primarily reflecting a decrease in our long-term borrowings used for capital expenditures and lower interest rates.

**Other (Expense) Income, Net**

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2009	2008	2009	2008
	(In millions)			
Interest income	\$	\$ 0.1	\$	\$ 0.3
Gain on extinguishment of debt			1.8	
Foreign exchange (loss) gain	(0.2)	2.1	6.6	2.5
Other		(0.5)	(0.2)	(0.9)
	\$ (0.2)	\$ 1.7	\$ 8.2	\$ 1.9



**Table of Contents**

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

**Item 2. Management's Discussion and Analysis of Financial Condition****and 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 about \$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 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 first quarter related to intercompany transactions.

**Provision for Income Taxes**

We recorded tax expense of \$0.8 million and \$12.4 million in the three- and nine-month periods of fiscal 2009 compared to \$(0.4) million and \$6.9 million in the same periods last year. Cooper's effective tax rates (ETR) (provision for income taxes divided by pretax income) for the three- and nine-month periods of fiscal 2009 were 3.4% and 14.9%, respectively. GAAP requires that the projected fiscal year ETR, plus any discrete items, be included in the year-to-date results. The ETR used to record the provisions for income taxes for the three- and nine-month periods ended July 31, 2008, were (2.1%) and 16.2%.

**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, 2008. The compensation and related income tax benefit recognized in the Company's consolidated financial statements for share-based awards were as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 31,</b>		<b>July 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In millions)</b>			
Selling, general and administrative expense	\$ 1.9	\$ 3.0	\$ 8.9	\$ 10.0
Cost of sales	0.3	0.2	0.9	1.0
Research and development expense	0.2		0.6	(0.2)
Capitalized in inventory	0.3	0.2	0.9	1.0
<b>Total compensation expense</b>	<b>\$ 2.7</b>	<b>\$ 3.4</b>	<b>\$ 11.3</b>	<b>\$ 11.8</b>
Related income tax benefit	\$ 0.9	\$ 0.8	\$ 4.0	\$ 3.1

**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 \$75.9 million vs. \$44.0 million in the fiscal third quarter of 2008.

Expenditures for purchases of property, plant and equipment (PP&E) \$19.9 million vs. \$25.4 million in last year's third quarter.

**Nine-Month Highlights**

Operating cash flow \$144.7 million vs. \$55.5 million in the fiscal first nine months of 2008.

Expenditures for purchases of PP&E \$73.9 million vs. \$102.3 million last year.

Cash payments for acquisitions totaled \$4.1 million vs. \$3.7 million last year.

**Comparative Statistics**

	July 31, 2009	October 31, 2008
	(\$ in millions)	
Cash and cash equivalents	\$ 3.8	\$ 1.9
Total assets	\$ 2,581.4	\$ 2,587.6
Working capital	\$ 305.9	\$ 270.6
Total debt	\$ 839.0	\$ 904.8
Stockholders' equity	\$ 1,514.4	\$ 1,417.1
Ratio of debt to equity	0.55:1	0.64:1
Debt as a percentage of total capitalization	36%	39%
Operating cash flow - twelve months ended	\$ 185.7	\$ 96.5

**Working Capital**

The increase in working capital in the fiscal first nine months of 2009 was primarily due to a decrease in accounts payable and short-term borrowings. An increase in our accounts receivable also contributed to the increase. The increase in working capital was partially offset by reductions in inventory and other receivables.

**Operating Cash Flow**

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

Cash flow provided by operating activities totaled \$144.7 million in the fiscal first nine months of 2009 and \$185.7 million over the twelve-month period ended July 31, 2009. Operating cash flow increased primarily due to higher net income and the collection of other receivables, partially offset, as we utilized cash to pay income taxes and accounts payable.

At the end of the fiscal first nine months of 2009, Cooper's inventory months on hand (MOH) decreased to 6.0 from 7.2 in last year's first nine months and 8.1 at October 31, 2008. Our

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations, Continued

days sales outstanding (DSO) decreased to 53 days from 59 days in last year's first nine 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.

**Investing Cash Flow**

The cash outflow of \$78.0 million from investing activities was for capital expenditures of \$73.9 million primarily to improve manufacturing efficiency and payments of \$4.1 million related to acquisitions.

**Financing Cash Flow**

The cash outflow of \$65.0 million from financing activities was driven by net repayments of long-term debt of \$57.6 million, net repayments of short-term debt of \$6.1 million and dividends paid on our common stock of \$1.3 million.

**Risk Management**

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 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. Our significant increase in debt following the acquisition of Ocular Sciences, Inc. 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.

On January 31, 2007, Cooper entered into a \$650 million syndicated Senior Unsecured Revolving Line of Credit (Revolver) and \$350 million aggregate principal amount of 7.125% of Senior Notes due 2015, of which \$339 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 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.

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

and Results of Operations, Continued

For additional detail on debt and derivative instruments, please refer to Part I, Item 1. Notes 5 and 6 of the consolidated condensed financial statement in this Quarterly Report on Form 10-Q; and Part I, Item 1A. Risk Factors and Part II, Item 8. Note 1 and Note 7 to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended October 31, 2008.

**Outlook - Global Market and Economic Conditions**

In the United States and globally, recent market and economic conditions continue to be challenging with tighter credit conditions and slower economic growth during the first half of 2009. For our fiscal first nine months ended July 31, 2009, continued concerns about the systemic impact of inflation, energy costs, geopolitical issues, the availability and cost of credit, bank failures and a declining real estate market in the U.S. have contributed to increased market volatility and diminished expectations for the U.S. and the global economy. These conditions, combined with declining business and consumer confidence and increased unemployment, have contributed to substantial declines in capital markets and consumer confidence.

As a result of these market conditions, the cost and availability of credit continues to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Ongoing turbulence in the U.S. and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers. If these market conditions do not improve, they may limit our ability, and the ability of our customers, to timely replace maturing liabilities, and access the capital markets to meet liquidity needs, resulting in potential adverse effects on our financial condition and results of operations. These conditions appear to have affected the markets for our products as consumers' spending decreased resulting in slower than projected growth in 2009.

We believe that cash and cash equivalents on hand of \$3.8 million plus cash generated by operating activities and borrowing capacity under our existing credit facilities will fund future operations, capital expenditures, cash dividends and small acquisitions. Over the past two fiscal years, the Company has made a significant investment in manufacturing capacity to support our silicone hydrogel and daily disposable contact lens product lines and improved capacity utilization. As a result, we plan to reduce overall capital expenditures related to manufacturing. Management believes that our projected outlook on sources of liquidity will be sufficient to meet our projected liquidity needs for the next 12 months. At July 31, 2009, we had \$236.8 million of available credit.

**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 and Critical Accounting Policies**

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

Revenue recognition

Allowance for doubtful accounts

Net realizable value of inventory

Valuation of goodwill

Business combinations

Income taxes

Share-based compensation

During the fiscal first nine months of 2009, 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, 2008, for a more complete discussion of our estimates and critical accounting policies.

**New Accounting Pronouncements**

On May 1, 2009, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10-65, formerly FASB Staff Position (FSP) FAS 157-4, *Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. ASC 820-10-65 provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset/liability has significantly decreased. It also provides guidance on identifying circumstances that indicate a transaction is not orderly. In addition, ASC 820-10-65 requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques. The application of the ASC 820-10-65 did not have an effect on our consolidated net earnings, cash flows or financial position.

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

On May 1, 2009, the Company adopted ASC 825-10-65, formerly FSP FAS 107-1 and Accounting Principles Board Opinions No. 28-1, *Interim Disclosure about Fair Value of Financial Instruments*. ASC 825-10-65 requires interim disclosures regarding the fair values of

**Table of Contents**

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

financial instruments that are within the scope of ASC 825, formerly Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about the Fair Value of Financial Instruments*. Additionally, ASC 825-10-65 requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments on an interim basis as well as changes of the methods and significant assumptions from prior periods. The application of ASC 825-10-65 did not have an effect on our consolidated net earnings, cash flows or financial position.

In May 2009, the FASB issued ASC 825, formerly SFAS No. 165, *Subsequent Events*, which established accounting principles and disclosure requirements for subsequent events. We adopted ASC 825 during the fiscal third quarter of 2009, and the adoption had no effect on our consolidated net earnings, cash flows or financial position.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (SFAS 166), which amends the derecognition guidance in FASB Statement No. 140 and eliminates the exemption from consolidation for qualifying special-purpose entities. The Company does not anticipate the adoption of SFAS 166, which is effective for the Company for the fiscal year beginning on November 1, 2010, will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167), which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under FASB Interpretation No. 46(R). The Company does not anticipate the adoption of SFAS 167, which is effective for the Company for the fiscal year beginning on November 1, 2010, will have a material impact on our consolidated financial statements.

In June 2009, the FASB established that the FASB Accounting Standards Codification (Codification) will become the single official source of authoritative US GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related accounting literature. Thereby, only one level of authoritative US GAAP will exist, and all other literature will be considered non-authoritative.

The Codification does not change US GAAP. The Codification becomes effective for interim and annual periods ending on or after September 15, 2009. The Codification is effective for the Company beginning in the fiscal fourth quarter of 2009, and we do not anticipate the adoption to have a material impact on our consolidated financial statements.

**Trademarks**

Aquaform, Avaira, Biofinity, Biomedics and Proclear 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**

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

**Item 4. Controls and Procedures**

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

In conjunction with the close of each fiscal quarter, the Company conducts a review and evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer, based upon their evaluation as of July 31, 2009, the end of the fiscal quarter covered in this report, concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

As of July 31, 2009, 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 The Cooper Cos., 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.

## **Table of Contents**

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 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, the impact of silicone hydrogel lenses and the Company's financial projections. 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. A February 17, 2010, trial date has been set and discovery has commenced. 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. The Company intends to defend this matter vigorously.

### **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, Moses Marx, Steven Rosenberg, Stanley Zinberg, Allan Rubenstein, and one former director. 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. Under the existing scheduling order, the Company has until September 12, 2009, to respond to the consolidated amended complaint.

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

**Table of Contents**

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

**Item 1A. Risk Factors**

There have been no material changes in the Company's risk factors from those disclosed in our Annual Report on Form 10-K for fiscal year ended October 31, 2008.

**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
-	

\* The information called for in this Exhibit is provided in Footnote 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.

The Cooper Companies, Inc.  
(Registrant)

Date: September 4, 2009

/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**

<b>Exhibit No.</b>		<b>Page No.</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	

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