

COOPER COMPANIES INC

Form 10-Q

March 05, 2010

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**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 January 31, 2010

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

Commission File Number 1-8597

**The Cooper Companies, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-2657368**  
(I.R.S. Employer  
Identification No.)

**6140 Stoneridge Mall Road, Suite 590, Pleasanton,**  
(Address of principal executive offices)

**CA 94588**  
(Zip Code)

**Registrant's telephone number, including area code (925) 460-3600**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

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

**Common Stock, \$.10 par value**  
**Class**

**45,425,373 Shares**  
**Outstanding at February 28, 2010**

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except for earnings per share)

(Unaudited)

	<b>Three Months Ended January 31,</b>	
	<b>2010</b>	<b>2009</b>
Net sales	\$ 260,258	\$ 251,142
Cost of sales	110,495	109,007
<b>Gross profit</b>	<b>149,763</b>	<b>142,135</b>
Selling, general and administrative expense	100,578	94,992
Research and development expense	7,626	7,232
Restructuring costs	363	2,954
Amortization of intangibles	4,217	4,177
Operating income	36,979	32,780
Interest expense	10,225	11,457
Other (expense) income, net	(2,328)	8,145
Income before income taxes	24,426	29,468
Provision for income taxes	4,003	5,595
<b>Net income</b>	<b>\$ 20,423</b>	<b>\$ 23,873</b>
Basic earnings per share	\$ 0.45	\$ 0.53
Diluted earnings per share	\$ 0.44	\$ 0.53
Number of shares used to compute earnings per share:		
Basic	45,293	45,141
Diluted	46,123	45,141

See accompanying notes.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

(In thousands)

(Unaudited)

	January 31, 2010	October 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,822	\$ 3,932
Trade accounts receivable, net of allowance for doubtful accounts of \$4,632 at January 31, 2010 and \$4,690 at October 31, 2009	174,945	170,941
Inventories	251,842	260,846
Deferred tax assets	25,339	23,360
Prepaid expense and other current assets	42,460	44,799
Total current assets	496,408	503,878
Property, plant and equipment, at cost	878,608	882,322
Less: accumulated depreciation and amortization	291,892	279,754
	586,716	602,568
Goodwill	1,254,767	1,257,029
Other intangibles, net	114,963	114,700
Deferred tax assets	25,027	27,781
Other assets	43,519	45,951
	\$ 2,521,400	\$ 2,551,907
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 15,119	\$ 7,051
Current portion of long-term debt	4,021	2,793
Accounts payable	36,105	36,878
Employee compensation and benefits	33,331	35,781
Accrued acquisition costs	3,442	3,599
Accrued income taxes	5,981	4,400
Other current liabilities	80,808	84,912
Total current liabilities	178,807	175,414
Long-term debt	724,178	771,630
Deferred tax liabilities	15,046	16,456
Accrued pension liability and other	51,313	48,065
Total liabilities	969,344	1,011,565
Commitments and contingencies (see Note 12)		
Stockholders' equity:		

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Preferred stock, 10 cents par value, shares authorized: 1,000; zero shares issued or outstanding		
Common stock, 10 cents par value, shares authorized: 70,000; issued 45,726 at January 31, 2010 and 45,572 at October 31, 2009	4,573	4,557
Additional paid-in capital	1,066,815	1,063,289
Accumulated other comprehensive loss	(24,039)	(12,920)
Retained earnings	509,512	490,451
Treasury stock at cost: 313 shares at January 31, 2010 and 328 shares at October 31, 2009	(4,805)	(5,035)
<b>Stockholders' equity</b>	<b>1,552,056</b>	<b>1,540,342</b>
	<b>\$ 2,521,400</b>	<b>\$ 2,551,907</b>

See accompanying notes.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

	<b>Three Months Ended January 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 20,423	\$ 23,873
Depreciation and amortization	22,905	25,000
Increase (decrease) in operating capital	645	(7,225)
Other non-cash items	12,169	(16,744)
<b>Net cash provided by operating activities</b>	<b>56,142</b>	<b>24,904</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(12,911)	(34,095)
Acquisitions of businesses, net of cash acquired, and other	(8,507)	(1,254)
<b>Net cash used in investing activities</b>	<b>(21,418)</b>	<b>(35,349)</b>
<b>Cash flows from financing activities:</b>		
Net proceeds (repayments) of short-term debt	8,068	(1,224)
Repayments and repurchase of long-term debt	(158,910)	(244,860)
Proceeds from long-term debt	112,686	256,486
Excess tax benefit from share-based compensation arrangements	407	136
Issuance of common stock for employee stock plans	919	
<b>Net cash (used in) provided by financing activities</b>	<b>(36,830)</b>	<b>10,538</b>
Effect of exchange rate changes on cash and cash equivalents	(4)	(152)
<b>Net decrease in cash and cash equivalents</b>	<b>(2,110)</b>	<b>(59)</b>
Cash and cash equivalents - beginning of period	3,932	1,944
<b>Cash and cash equivalents - end of period</b>	<b>\$ 1,822</b>	<b>\$ 1,885</b>

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Gain (Loss)

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>January 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income	\$ 20,423	\$ 23,873
Other comprehensive loss:		
Foreign currency translation adjustment	(17,050)	(39,306)
Change in value of derivative instruments, net of tax	5,931	(24,466)
<b>Other comprehensive loss</b>	<b>(11,119)</b>	<b>(63,772)</b>
 Comprehensive gain (loss)	 \$ 9,304	 \$ (39,899)

See accompanying notes.



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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

Note 1. General

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

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

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

Revenue recognition

Allowance for doubtful accounts

Net realizable value of inventory

Valuation of goodwill

Business combinations

Income taxes

Share-based compensation

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

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

During the fiscal first quarter of 2010, we recorded out-of-period adjustments primarily to increase accruals for rebates that were under-accrued in fiscal 2009. These out-of-period accruals were offset in part by a reduction in accrued compensation and income tax expense, resulting in a decrease in net income of \$6.0 million in the fiscal first quarter of 2010. 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*, we do not believe that the effect of the out-of-period adjustments is material to our estimated full-year 2010 financial results. We also do not believe that the out-of-period adjustments are material to any previously issued consolidated financial statements. Because the out-of-period adjustments are not material to any of the prior year's consolidated financial statements and are not expected to be material to our estimated full-year 2010 financial results, the out-of-period adjustments were recorded in our consolidated financial statements for the fiscal first quarter of 2010.

We use derivatives to reduce market risks associated with changes in foreign exchange and interest rates. We do not use derivatives for trading or speculative purposes. We believe that the counterparties with which we enter into foreign currency forward contracts and interest rate swap agreements are financially sound and that the credit risk of these contracts is not significant, see Note 6. Derivative Instruments.

**New Accounting Pronouncements**

On November 1, 2009, the Company adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 350-30-35-5A, *Accounting for Defensive Intangible Assets*. ASC Subtopic 350-30-35-5A applies to defensive intangible assets, which are acquired intangible assets that an entity does not intend to actively use but does intend to prevent others from obtaining access to the asset. ASC 350-30-35-5A requires an entity to account for defensive intangible assets as a separate unit of accounting. Defensive intangible assets should not be included as part of the cost of an entity's existing intangible assets because the defensive intangible assets are separately identifiable. Defensive intangible assets must be recognized at fair value in accordance with ASC 805 *Business Combinations* and ASC 820 *Fair Value Measurement and Disclosure*. ASC 350-30-35-5A is effective prospectively for intangible assets acquired in fiscal years beginning after December 15, 2008, or our fiscal year 2010.