COOPER COMPANIES INC
Form 10-Q
September 06, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarterly Period Ended July 31, 2013
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number 1-8597

The Cooper Companies, Inc.
(Exact name of registrant as specified in its charter)

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

6140 Stoneridge Mall Road, Suite 590, Pleasanton, CA 94588
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code (925) 460-3600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý 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	ý		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 ý

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	48,947,845 Shares
Class	Outstanding at July 31, 2013

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
THE COOPER COMPANIES, INC. AND SUBSIDIARIES
Consolidated Statements of Income
Periods Ended July 31,
(In thousands, except for earnings per share)
(Unaudited)

	Three Months		Nine Months	
	2013	2012	2013	2012
Net sales	$411,993	$378,186	$1,175,873	$1,048,835
Cost of sales	143,719	138,089	412,923	377,589
Gross profit	268,274	240,097	762,950	671,246
Selling, general and administrative expense	152,141	143,830	453,487	412,540
Research and development expense	14,865	13,156	43,008	37,611
Amortization of intangibles	7,660	5,861	22,553	16,677
Operating income	93,608	77,250	243,902	204,418
Interest expense	2,258	2,315	7,268	9,049
Gain on insurance proceeds	—	—	14,084	—
Loss on extinguishment of debt	—	1,404	—	1,404
Other (expense) income, net	(86)	(2,144)	461	(1,152)
Income before income taxes	91,264	71,387	251,179	192,813
Provision for income taxes	2,072	4,433	11,585	16,315
Net income	$89,192	$66,954	$239,594	$176,498
Less: income attributable to noncontrolling interests	241	79	840	79
Net income attributable to Cooper stockholders	$88,951	$66,875	$238,754	$176,419
Earnings per share attributable to Cooper stockholders - basic	$1.82	$1.39	$4.91	$3.69
Earnings per share attributable to Cooper stockholders - diluted	$1.79	$1.36	$4.81	$3.60
Number of shares used to compute earnings per share:				
Basic	48,791	48,110	48,588	47,832
Diluted	49,754	49,302	49,623	49,069

See accompanying notes.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)
Periods Ended July 31,
(In thousands)
(Unaudited)

	Three Months		Nine Months	
	2013	2012	2013	2012
Net income	$89,192	$66,954	$239,594	$176,498
Other comprehensive income (loss):				
Foreign currency translation adjustment	(12,697)	(17,501)	(26,108)	(20,814)
Change in value of derivative instruments, net of tax provision (benefit) of $260 and $647 for the three and nine months ended July 31, 2013, respectively, and $(35) and $147 for the corresponding period of fiscal 2012, respectively	406	(53)	1,013	231
Change in minimum pension liability, net of tax	7	7	22	22
Unrealized (loss) gain on marketable securities, net of tax (benefit) provision of $(3) and $22 for the three and nine months ended July 31, 2013, respectively, and $(9) and $20 for the corresponding period of fiscal 2012, respectively	(5)	(16)	41	40
Reclassification of realized gain on marketable securities to net income, net of tax of $51	(95)	—	(95)	—
Other comprehensive loss	(12,384)	(17,563)	(25,127)	(20,521)
Comprehensive income	76,808	49,391	214,467	155,977
Comprehensive loss attributable to noncontrolling interests	114	—	740	—
Comprehensive income attributable to Cooper stockholders	$76,922	$49,391	$215,207	$155,977

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES
Consolidated Condensed Balance Sheets
(In thousands, unaudited)

	July 31, 2013	October 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$25,482	$12,840
Trade accounts receivable, net of allowance for doubtful accounts of $5,116 at July 31, 2013 and $4,374 at October 31, 2012	247,296	234,297
Inventories	339,908	320,199
Deferred tax assets	40,008	39,417
Prepaid expense and other current assets	53,313	51,107
Total current assets	706,007	657,860
Property, plant and equipment, at cost	1,127,861	1,060,086
Less: accumulated depreciation and amortization	473,761	419,831
	654,100	640,255
Goodwill	1,378,679	1,370,247
Other intangibles, net	203,398	214,783
Deferred tax assets	17,021	14,434
Other assets	47,703	43,805
	$3,006,908	$2,941,384
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$28,338	$25,284
Accounts payable	76,571	85,056
Employee compensation and benefits	55,831	59,441
Accrued income taxes	10	3,640
Other current liabilities	88,536	89,131
Total current liabilities	249,286	262,552
Long-term debt	215,291	348,422
Deferred tax liabilities	23,298	30,971
Accrued pension liability and other	81,391	86,281
Total liabilities	569,266	728,226
Commitments and contingencies (see Note 12)		
Stockholders' equity:		
Preferred stock, 10 cents par value, shares authorized: 1,000; zero shares issued or outstanding	—	—
Common stock, 10 cents par value, shares authorized: 120,000; issued 50,327 at July 31, 2013 and 49,447 at October 31, 2012	5,033	4,945
Additional paid-in capital	1,315,367	1,265,202
Accumulated other comprehensive loss	(56,387)	(31,261)
Retained earnings	1,254,455	1,018,618
Treasury stock at cost: 1,379 shares at July 31, 2013 and 1,007 shares at October 31, 2012	(102,946)	(64,753)
Total Cooper stockholders' equity	2,415,522	2,192,751
Noncontrolling interests	22,120	20,407
Stockholders' equity	2,437,642	2,213,158

	$3,006,908	$2,941,384

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows
Nine Months Ended July 31,
(In thousands)
(Unaudited)

	2013	2012
Cash flows from operating activities:		
Net income	$239,594	$176,498
Depreciation and amortization	93,586	80,395
Loss on extinguishment of debt	—	1,404
Decrease in operating capital	(80,902)	(81,700)
Other non-cash items	13,306	23,707
Net cash provided by operating activities	265,584	200,304
Cash flows from investing activities:		
Purchases of property, plant and equipment	(106,062)	(67,141)
Acquisitions of businesses, net of cash acquired, and other	(9,235)	(144,969)
Insurance proceeds received	1,254	6,624
Proceeds from sale of marketable securities	238	—
Net cash used in investing activities	(113,805)	(205,486)
Cash flows from financing activities:		
Proceeds from long-term debt	975,000	1,152,575
Repayments of long-term debt	(1,108,034)	(1,038,427)
Net proceeds from (repayments of) short-term debt	8,380	(63,057)
Repurchase of common stock	(44,363)	(71,150)
Proceeds from issuance of common stock for employee stock plans	19,094	27,160
Excess tax benefit from share-based compensation awards	15,700	10,760
Purchase of Origio shares from noncontrolling interests	(2,641)	—
Dividends on common stock	(1,449)	(1,421)
Debt acquisition costs	—	(1,317)
Distributions to noncontrolling interests	(1,007)	—
Payment of contingent consideration	(3,600)	(1,314)
Proceeds from construction allowance	4,781	—
Net cash (used in) provided by financing activities	(138,139)	13,809
Effect of exchange rate changes on cash and cash equivalents	(998)	(1,070)
Net increase in cash and cash equivalents	12,642	7,557
Cash and cash equivalents - beginning of period	12,840	5,175
Cash and cash equivalents - end of period	$25,482	$12,732

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) is a global medical device company publicly traded on the NYSE Euronext (NYSE: COO). Cooper is dedicated to being A Quality of Life Company™ with a focus on delivering shareholder value. Cooper operates through our business units, CooperVision and CooperSurgical.

- CooperVision develops, manufactures and markets a broad range of soft contact lenses for the worldwide vision correction market.
- CooperSurgical develops, manufactures and markets medical devices and procedure solutions to improve healthcare delivery to women.

The unaudited consolidated condensed financial statements presented in this report contain all adjustments necessary to present fairly Cooper’s consolidated condensed financial position at July 31, 2013 and October 31, 2012, the consolidated results of its operations for the three and nine months ended July 31, 2013 and 2012 and its consolidated condensed cash flows for the nine months ended July 31, 2013 and 2012. Most of these adjustments are normal and recurring. However, certain adjustments associated with acquisitions and insurance proceeds 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, 2012. Please refer to this when reviewing this Quarterly Report on Form 10-Q.

On October 28, 2011, a manufacturing building in the UK experienced an incident in which a pipe broke in our fire suppression system, causing water and fire retardant foam damage to the facility. While this incident did not impact our existing customers, the repairs to the facility and resultant decrease in manufacturing capacity impacted the timing of marketing initiatives to generate additional sales. In January 2013, we resolved our business interruption claim with our insurer for a total of $19.1 million. We received a payment of $5.0 million in our fiscal fourth quarter of 2012. In our fiscal first quarter of 2013, we recorded the remaining $14.1 million in our Consolidated Statement of Income of which we received payment of $2.9 million during the fiscal first quarter and payment of the remaining $11.2 million in the fiscal second quarter.

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
- Net realizable value of inventory
- Valuation of goodwill
- Business combinations
- Income taxes
- Share-based compensation

During the fiscal first nine months of 2013, 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, 2012, for a more complete discussion of our estimates and critical accounting policies.

New Accounting Pronouncement

In fiscal 2013, the Company adopted the provisions of Financial Accounting Standards Board Accounting Standards Update (ASU) 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate but consecutive statements of net income and other comprehensive income. The Company has elected to present net income and other comprehensive income on two separate but consecutive statements. The adoption of ASU 2011-05 did not have an impact on the Company’s consolidated results of operations, financial condition or cash flows.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires entities to present, either on the face of the statement where net income is presented or as a separate disclosure in the notes, the effect on the respective line items of net income for items required to be reclassified out of accumulated other comprehensive income to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in its entirety to net income in the same reporting period, an entity is required to cross-reference to other required disclosures that provide additional details about those amounts. The Company does not anticipate that the adoption of this amendment, which is effective for the Company for the fiscal year beginning on November 1, 2013, will have a material impact on our consolidated financial statements.

Note 2. Acquisitions

Origio Acquisition

On July 11, 2012, the acquisition date, we completed a voluntary tender offer for the outstanding shares of Origio a/s at a purchase price of NOK 28 per share in cash and acquired 97% of the outstanding shares. As a result, the fair value of the consideration transferred for Origio was approximately $147.4 million in cash, $143.6 million net of cash acquired.

Origio, based in Malov, Denmark, is a leading global in-vitro fertilization (IVF) medical device company that develops, manufactures and distributes highly specialized products that target IVF treatment with a goal to make fertility treatment safer, more efficient and convenient.

The acquisition was accounted for under the acquisition method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value. During the fiscal second quarter of 2013, we received the remaining information necessary to complete the fair value measurements of assets acquired and liabilities assumed for fixed assets, income taxes and commitments and contingencies resulting in a net increase to goodwill of $12.4 million. While we closed the acquisition of shares on July 11, 2012, we accounted for the acquisition as of July 1, 2012, and have included the operating results of Origio in our CooperSurgical business segment from that date. The impact of Origio's results of operations for the period July 1, 2012 through July 10, 2012 on our CooperSurgical business segment results of operations was de minimis. Similarly, we have determined that any difference in the fair value of assets acquired and liabilities assumed with respect to Origio between July 1, 2012 and July 11, 2012 was de minimis. We allocated the fair value of the purchase price as follows: $8.5 million for working capital, including $3.8 million of cash, $22.4 million for property, plant and equipment, $1.9 million for net other liabilities, $25.6 million for net deferred tax liabilities, $22.1 million for noncontrolling interests and $45.4 million of debt. We repaid substantially all of the acquired debt concurrent with the acquisition with available funds. Additionally, the allocation of the purchase price includes amortizable intangible assets of $107.7 million and goodwill of $103.7 million. The intangible assets include $82.1 million for customer relationships (shelf space and market share) with an estimated useful life of 15 years; $17.4 million for technology with an estimated useful life of 10 years; and $8.2 million for trade names with estimated useful lives of 17 years. We incurred $4.9 million of acquisition costs that were expensed in operations in fiscal 2012.

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from the other assets acquired that could not be individually identified and separately recognized. The goodwill recorded as part of the acquisition of Origio, of which $13.1 million is deductible for tax purposes, is ascribed to our CooperSurgical business segment and is not amortized. This goodwill includes the following:

- The expected synergies and other benefits that we believed will result from combining the operations of Origio with the operations of CooperSurgical;
- Any intangible assets that did not qualify for separate recognition, as well as future, yet unidentified projects and products; and
- The value of the going-concern element of Origio's existing businesses (the higher rate of return on the assembled collection of net assets versus if CooperSurgical had acquired all of the net assets separately).

Management assigned fair values to the identifiable intangible assets through a combination of the discounted cash flow, multi-period excess earnings and relief from royalty methods. The valuation models were based on estimates of future operating projections of the acquired business and rights to sell products as well as judgments on the discount rates used and other variables. We determined the forecasts based on a number of factors including our best estimate of near-term net sales expectations and long-term projections, which include review of internal and independent market analyses. The discount rate used was representative of the weighted average cost of capital.

The pro forma results of operations have not been presented because the effects of the business combination described above were not material to our consolidated results of operations.

Note 3. Inventories

(In thousands)	July 31, 2013	October 31, 2012
Raw materials	$80,253	$75,500
Work-in-process	13,322	10,142
Finished goods	246,333	234,557
	$339,908	$320,199

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

(In thousands)	CooperVision	CooperSurgical	Total
Balance as of October 31, 2011	$1,046,587	$229,980	$1,276,567
Net additions during the year ended October 31, 2012	260	95,348	95,608
Translation	(2,793)	865	(1,928)
Balance as of October 31, 2012	1,044,054	326,193	1,370,247
Net additions during the nine-month period ended July 31, 2013	2,961	10,992	13,953
Translation	(6,060)	539	(5,521)
Balance as of July 31, 2013	$1,040,955	$337,724	$1,378,679

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We performed our annual impairment assessment in our fiscal third quarter of 2013, and our analysis indicated that we had no impairment of goodwill. We performed our annual impairment assessment in our fiscal third quarter of 2012, and our analysis indicated that we had no impairment of goodwill. We evaluate goodwill for impairment annually during the fiscal third quarter and when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. We account for goodwill and evaluate our goodwill balances and test them for impairment in accordance with related accounting standards.

In fiscal 2013 and 2012, we performed a qualitative assessment to test each reporting unit's goodwill for impairment. Qualitative factors considered in this assessment include industry and market considerations, overall financial performance and other relevant events and factors affecting each reporting unit. Based on our qualitative assessment, if we determine that the fair value of a reporting unit is more likely than not to be less than its carrying amount, the two step impairment test will be performed. Initially, we compare the book value of net assets to the fair value of each reporting unit that has goodwill assigned to it. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of the impairment. A reporting unit is the level of reporting at which goodwill is tested for impairment. Our reporting units are the same as our business segments - CooperVision and CooperSurgical - reflecting the way that we manage our business.

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

Other Intangible Assets

	As of July 31, 2013		As of October 31, 2012	
(In thousands)	Gross Carrying Amount	Accumulated Amortization & Translation	Gross Carrying Amount	Accumulated Amortization & Translation
Trademarks	$12,354	$2,165	$11,254	$1,632
Technology	132,815	81,304	128,398	72,397
Shelf space and market share	198,410	71,546	192,566	59,269
License and distribution rights and other	23,782	8,948	23,782	7,919
	367,361	$163,963	356,000	$141,217
Less accumulated amortization and translation	163,963		141,217	
Other intangible assets, net	$203,398		$214,783	

We estimate that amortization expense for our existing other intangible assets, including the intangible assets acquired from Origio, will be $30.2 million in fiscal 2013, $27.9 million in fiscal 2014, $21.5 million in fiscal 2015, $19.8 million in fiscal 2016 and $19.4 million in fiscal 2017.

Note 5. Debt

(In thousands)	July 31, 2013	October 31, 2012
Short-term:		
Overdraft and other credit facilities	$28,338	$25,284
Long-term:		
Credit agreement	$213,600	$346,100
Other	1,691	2,322
	$215,291	$348,422

Credit Agreement: On May 31, 2012, Cooper entered into an amendment (Amendment) to our Credit Agreement, dated as of January 12, 2011, by and among the Company, CooperVision International Holding Company, LP, the lenders party thereto and KeyBank National Association, as administrative agent. The amended Credit Agreement provides for a multicurrency revolving credit facility in an aggregate commitment amount of $1.0 billion, which may be increased, upon written request by Cooper, by $500.0 million. The amended termination date of the Credit Agreement is May 31, 2017.

The Amendment also amended the commitment fee rate to a range between 0.100% and 0.275% of the unused portion of the revolving facility based on a pricing grid tied to our Total Leverage Ratio (as defined below and in the Credit Agreement) and amended the applicable margin rates such that the loans outstanding under the Credit Agreement will bear interest based, at our option, on either the base rate or the adjusted Eurodollar rate or adjusted foreign currency rate (each as defined in the Credit Agreement), plus an applicable margin of between 0.00% and 0.75% in respect of base rate loans and between 1.00% and 1.75% in respect of adjusted Eurodollar rate or adjusted foreign currency rate loans, in each case in accordance with a pricing grid tied to our Total Leverage Ratio. In addition to the annual commitment fee, we are also required to pay certain letter of credit and related fronting fees and other administrative fees pursuant to the terms of the Credit Agreement.

The Credit Agreement is not secured by any of Cooper's, or any of its subsidiaries', assets. All obligations under the Credit Agreement will be guaranteed by each of our existing and future direct and indirect material domestic subsidiaries.

Pursuant to the terms of the Credit Agreement, we are also required to maintain specified financial ratios:

- The ratio of Consolidated Proforma EBITDA to Consolidated Interest Expense (as defined, Interest Coverage Ratio) be at least 3.00 to 1.00 at all times.
- The ratio of Consolidated Funded Indebtedness to Consolidated Proforma EBITDA (as defined, Total Leverage Ratio) be no higher than 3.75 to 1.00.

At July 31, 2013, we were in compliance with the Interest Coverage Ratio at 49.74 to 1.00 and the Total Leverage Ratio at 0.49 to 1.00.

At July 31, 2013, we had $786.2 million available under the Credit Agreement.

In our fiscal third quarter of 2012, we recorded a $1.4 million loss for debt issuance costs as a result of amending the Credit Agreement. The remaining $6.0 million of existing debt issuance costs and the approximately $1.3 million of costs incurred to amend the Credit Agreement are carried in other assets and amortized to interest expense over the life of the Credit Agreement.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
(Unaudited)

Note 6. Income Taxes

Cooper's effective tax rate (ETR) (provision for income taxes divided by pretax income) for the fiscal first nine months of 2013 was 4.6%. Our year-to-date results include the projected fiscal year ETR, plus any discrete items. The ETR used to record the provision for income taxes for the fiscal first nine months of 2012 was 8.5%. The ETR is below the United States statutory rate as a majority of our taxable income is earned in foreign jurisdictions with lower tax rates.

We recognize the benefit from a tax position only if it is more likely than not that the position would be sustained upon audit based solely on the technical merits of the tax position. As of November 1, 2012, Cooper had total gross unrecognized tax benefits of $28.1 million. If recognized, $29.5 million of unrecognized tax benefits would impact our ETR. For the nine-month period ended July 31, 2013, there were no material changes to the total amount of unrecognized tax benefits.

Interest and penalties of $2.6 million have been reflected as a component of the total liability as of November 1, 2012. It is the Company's policy to recognize the items of interest and penalties directly related to income taxes as additional income tax expense.

Included in the balance of unrecognized tax benefits at November 1, 2012, is $5.0 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 relates primarily to transfer pricing matters.

As of July 31, 2013, the tax years for which Cooper remains subject to United States Federal income tax assessment upon examination are 2009 through 2012. Cooper remains subject to income tax examinations in other major tax jurisdictions including the United Kingdom, France and Australia for the tax years 2008 through 2012.

Note 7. Earnings Per Share

Periods Ended July 31,	Three Months		Nine Months	
(In thousands, except per share amounts)	2013	2012	2013	2012
Net income attributable to Cooper stockholders	$88,951	$66,875	$238,754	$176,419
Basic:				
Weighted average common shares	48,791	48,110	48,588	47,832
Basic earnings per common share attributable to Cooper stockholders	$1.82	$1.39	$4.91	$3.69
Diluted:				
Weighted average common shares	48,791	48,110	48,588	47,832
Effect of potential dilutive common shares	963	1,192	1,035	1,237
Diluted weighted average common shares	49,754	49,302	49,623	49,069
Diluted earnings per common share attributable to Cooper stockholders	$1.79	$1.36	$4.81	$3.60

THE COOPER COMPANIES, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
(Unaudited)

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

Periods Ended July 31,	Three Months		Nine Months	
(In thousands, except exercise prices)	2013	2012	2013	2012
Numbers of stock option shares excluded	—	1	—	12
Range of exercise prices	$—	$87.22	$—	$76.70-$87.22

Note 8. Share-Based Compensation Plans

Cooper 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, 2012. The compensation expense and related income tax benefit recognized in our consolidated financial statements for share-based awards were as follows:

Periods Ended July 31,	Three Months		Nine Months	
(In millions)	2013	2012	2013	2012
Selling, general and administrative expense	$5.5	$4.1	$19.6	$14.8
Cost of sales	0.5	0.3	1.5	1.0
Research and development expense	0.3	0.2	0.9	0.8
Capitalized in inventory	0.5	0.3	1.5	1.0
Total share-based compensation expense	$6.8	$4.9	$23.5	$17.6
Related income tax benefit	$1.9	$1.5	$6.9	$5.5

Note 9. Stockholders' Equity

Share Repurchases

On December 15, 2011, we announced that the Company's Board of Directors authorized the 2012 Share Repurchase Program to repurchase up to $150.0 million of the Company's common stock. This program was amended in December 2012 to increase the total authorization to $300.0 million and to change the expiration date to indefinite. This plan may be discontinued at any time. Purchases under the 2012 Share Repurchase Program are subject to a review of the circumstances in place at the time and will be made from time to time as permitted by securities laws and other legal requirements. Approximately $184.5 million remains authorized for repurchase under the program. The Company did not repurchase shares during the three-month periods ended July 31, 2013, April 30, 2013, April 30, 2012 and October 31, 2012. For the three months ended January 31, 2013, the Company repurchased 460 thousand shares of the Company's common stock for $44.4 million at an average purchase price of $96.34 per share. During the three months ended July 31, 2012, the Company repurchased 321 thousand shares of the Company's common stock for $25.0 million, at an average purchase price of $77.89 per share. During the three months ended January 31, 2012, the Company repurchased 663 thousand shares for $46.1 million, at an average purchase price of $69.60 per share.

Dividends

We paid a semiannual dividend of approximately $1.4 million or 3 cents per share on February 7, 2013, to stockholders of record on January 25, 2013. We paid another semiannual dividend of approximately $1.5 million or 3 cents per share on August 6, 2013, to stockholders of record on July 24, 2013.

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Note 10. Fair Value Measurements
As of July 31, 2013 and October 31, 2012, the carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, lines of credit, accounts payable and other current liabilities approximates fair value due to the short-term nature of such instruments and the ability to obtain financing on similar terms.
Assets and liabilities are measured and reported at fair value per related accounting standards that define 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. The fair value hierarchy 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. Assets and liabilities carried at fair value are 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 that 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 Cooper's creditworthiness when in a liability position has also been factored into the fair value measurement of the derivative instruments. Both the counterparty and Cooper are expected to continue to perform under the contractual terms of the instruments.
We may 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. We have 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 Eurodollar 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 and credit risk at commonly quoted intervals. Mid-market pricing is used as a practical expedient for fair value measurements.
We may use foreign exchange forward contracts to minimize, to the extent reasonable and practical, our exposure to the impact of foreign currency fluctuations. We have 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 Cooper's financial assets and liabilities that were measured at fair value on a recurring basis using Level 2 inputs during the fiscal first nine months of 2013, within the fair value hierarchy at July 31, 2013, and fiscal year 2012, within the fair value hierarchy at October 31, 2012:

(In millions)	July 31, 2013	October 31, 2012
Assets:		
Foreign exchange contracts	$0.1	$0.2
Liabilities:		
Interest rate swaps	$2.2	$3.9
Foreign exchange contracts	1.3	0.2
	$3.5	$4.1

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We recorded contingent consideration representing the estimated fair value of the additional variable cash consideration payable related to an acquisition in our fiscal first quarter of 2013. We recorded the fair value of the acquisition-related contingent consideration as liabilities on the acquisition date using the discounted cash flow approach. Cooper uses unobservable Level 3 inputs including a forecast of new customer accounts and discount rates to fair value the liabilities. Significant increases or decreases in these unobservable inputs in isolation would result in a significantly lower or higher fair value measurement. At July 31, 2013, the fair value of the contingent consideration payable totaled $2.6 million.

Note 11. Employee Benefits
Cooper's Retirement Income Plan (Plan), a defined benefit plan, covers substantially all full-time United States employees. Cooper's contributions are designed to fund normal cost on a current basis and to fund the estimated prior service cost of benefit improvements. The unit credit actuarial cost method is used to determine the annual cost. Cooper pays the entire cost of the Plan and funds such costs as they accrue. Virtually all of the assets of the Plan are comprised of equities and participation in equity and fixed income funds.
Cooper's results of operations for the three and nine months ended July 31, 2013 and 2012 reflect the following components of net periodic pension costs:

Periods Ended July 31,	Three Months		Nine Months	
(In thousands)	2013	2012	2013	2012
Service cost	$1,845	$1,234	$5,537	$3,702
Interest cost	822	763	2,465	2,290
Expected returns on assets	(1,028)	(856)	(2,950)	(2,568)
Amortization of prior service cost	6	6	18	18
Amortization of transition obligation	—	5	—	15
Recognized net actuarial loss	547	282	1,640	845
Net periodic pension cost	$2,192	$1,434	$6,710	$4,302

Cooper contributed $1.1 million and $4.5 million to the pension plan for the three and nine months ended July 31, 2013, respectively, and expects to contribute an additional $1.7 million in fiscal 2013. We contributed $1.2 million and $3.4 million to the pension plan for the three and nine months ended July 31, 2012. The expected rate of return on plan assets for determining net periodic pension cost is 8%.

Note 12. Contingencies
Legal Proceedings
Securities Litigation
On November 28, 2011, Harold Greenberg filed a complaint in the United States District Court for the Northern District of California, Case No. 4:11-cv-05697-YGR, against the following defendants: the Company; Robert S. Weiss, its President, Chief Executive Officer and a director; Eugene J. Midlock, its former Senior Vice President and Chief Financial Officer; and Albert G. White, III, its Vice President and Chief Strategy Officer. On December 12, 2011, a second individual, Ross Wallen, filed a related complaint against the same defendants in the Northern District of California, Case No. 4:11-cv-06214-YGR. The Wallen complaint largely repeats the allegations in the Greenberg complaint. Greenberg and Wallen each sought to represent a class of persons who purchased the Company's common stock between March 4, 2011 and November 15, 2011.

On February 29, 2012, the court ordered the Greenberg and Wallen actions consolidated and appointed Universal-Investment-Gesellschaft mbH as lead plaintiff. On May 4, 2012, the lead plaintiff filed a Consolidated Amended Complaint, which alleges that the Company, Robert S. Weiss and Eugene J. Midlock violated Section 10(b) of the Securities Exchange Act of 1934 by, among other things, making misrepresentations with an intent to deceive investors concerning the safety of the Avaira® Toric and Avaira Sphere contact lenses, which the Company recalled in 2011. On August 7, 2012, the Court heard argument on defendants' motion to dismiss the Consolidated Amended Complaint. On January 7, 2013, the Court granted defendants' motion to dismiss the Consolidated Amended Complaint, with leave to amend. On February 4, 2013, the lead plaintiff filed a Second Consolidated Amended Complaint, which again alleges that the Company, Robert S. Weiss and Eugene J. Midlock violated Section 10(b) of the Securities Exchange Act of 1934 by, among other things, making misrepresentations with an intent to deceive investors concerning the 2011 recall of Avaira contact lenses. The Second Consolidated Amended Complaint seeks unspecified damages on behalf of a purported class of persons who purchased the Company's common stock between August 19, 2011 and November 15, 2011. On March 6, 2013, the defendants moved to dismiss the Second Consolidated Amended Complaint. On April 16, 2013 the Court heard argument on defendants' motion to dismiss the Second Consolidated Amended Complaint. On May 31, 2013, the Court granted defendants' motion to dismiss the Second Consolidated Amended Complaint without leave to amend and entered final judgment in favor of defendants. Plaintiff did not file a notice of appeal within the time prescribed by law.

Derivative Litigation

On January 9, 2012, Joseph Operman filed a purported shareholder derivative complaint in the United States District Court for the Northern District of California, Case No. 4:12-cv-00143-YGR, against members of the Company's board of directors. The derivative complaint seeks recovery on behalf of the Company, which is named as a “nominal defendant.” The derivative complaint purports to allege causes of action for breach of fiduciary duties and failure to exercise oversight responsibilities against all defendants and a cause of action for contribution against Mr. Weiss for alleged violations of Section 10(b) of the Securities Exchange Act of 1934. On May 18, 2012, Operman filed an amended derivative complaint. The amended derivative complaint largely repeats the allegations of misrepresentations in the securities class action complaints described above, and includes allegations of false projections of future financial results. On June 13, 2013, Operman voluntarily moved the Court to dismiss the derivative action without prejudice. On July 24, 2013, after the Company's shareholders were provided with notice of the voluntary motion for dismissal and an opportunity to object, and no objections were received, the Court entered a final order of dismissal in the derivative action.

Note 13. Business Segment Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group. Cooper has two reportable segments - CooperVision and CooperSurgical. 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.

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Segment information:

Periods Ended July 31,	Three Months		Nine Months	
(In thousands)	2013	2012	2013	2012
CooperVision net sales by category:				
Toric lens	$101,494	$94,679	$289,856	$265,844
Multifocal lens	33,085	24,824	89,890	67,866
Single-use sphere lens	70,709	71,664	199,918	194,726
Non single-use sphere and other eye care products and other	125,232	123,069	361,583	342,740
Total CooperVision net sales	330,520	314,236	941,247	