COOPER COMPANIES INC
Form 10-Q
March 06, 2015

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 January 31, 2015
o 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 o

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 o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes o 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	48,288,639 Shares
Class	Outstanding at January 31, 2015

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

	2015	2014
Net sales	$445,171	$404,980
Cost of sales	168,820	142,051
Gross profit	276,351	262,929
Selling, general and administrative expense	173,535	158,088
Research and development expense	16,113	15,712
Amortization of intangibles	13,595	7,507
Operating income	73,108	81,622
Interest expense	3,941	1,656
Other expense, net	1,702	510
Income before income taxes	67,465	79,456
Provision for income taxes	5,716	7,191
Net income	$61,749	$72,265
Less: income attributable to noncontrolling interests	570	422
Net income attributable to Cooper stockholders	$61,179	$71,843
Earnings per share attributable to Cooper stockholders - basic	$1.27	$1.50
Earnings per share attributable to Cooper stockholders - diluted	$1.25	$1.47
Number of shares used to compute earnings per share:		
Basic	48,202	48,006
Diluted	49,082	49,006

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)
Three Months Ended January 31,
(In thousands)
(Unaudited)

	2015	2014
Net income	$61,749	$72,265
Other comprehensive income (loss):		
Foreign currency translation adjustment	(113,619)	3,196
Change in value of derivative instruments, net of tax provision of $30 and $222, respectively	47	347
Change in minimum pension liability, net of tax	7	7
Other comprehensive (loss) income	(113,565)	3,550
Comprehensive (loss) income	(51,816)	75,815
Comprehensive loss attributable to noncontrolling interests	648	2
Comprehensive (loss) income attributable to Cooper stockholders	$(51,168)	$75,817

See accompanying notes.

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

	January 31, 2015	October 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$16,428	$25,222
Trade accounts receivable, net of allowance for doubtful accounts of $5,761 at January 31, 2015 and $6,025 at October 31, 2014	275,899	276,280
Inventories	390,101	381,474
Deferred tax assets	36,329	40,224
Prepaid expense and other current assets	68,352	68,417
Total current assets	787,109	791,617
Property, plant and equipment, at cost	1,522,022	1,525,917
Less: accumulated depreciation and amortization	593,395	588,592
	928,627	937,325
Goodwill	2,157,577	2,220,921
Other intangibles, net	418,043	453,605
Deferred tax assets	8,230	15,732
Other assets	36,158	39,140
	$4,335,744	$4,458,340
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$92,795	$101,518
Accounts payable	87,336	116,353
Employee compensation and benefits	50,589	67,904
Other current liabilities	151,859	156,407
Total current liabilities	382,579	442,182
Long-term debt	1,302,542	1,280,833
Deferred tax liabilities	69,377	69,525
Accrued pension liability and other	64,261	77,360
Total liabilities	1,818,759	1,869,900
Commitments and contingencies		
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 51,212 at January 31, 2015 and 50,983 at October 31, 2014	5,121	5,099
Additional paid-in capital	1,385,787	1,386,800
Accumulated other comprehensive loss	(219,747)	(106,182)
Retained earnings	1,638,555	1,578,823
Treasury stock at cost: 2,923 shares at January 31, 2015 and 2,840 shares at October 31, 2014	(308,842)	(294,662)
Total Cooper stockholders' equity	2,500,874	2,569,878
Noncontrolling interests	16,111	18,562
Stockholders' equity	2,516,985	2,588,440
	$4,335,744	$4,458,340

See accompanying notes.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows
Three Months Ended January 31,
(In thousands)
(Unaudited)

	2015		2014	
Cash flows from operating activities:				
Net income	$61,749		$72,265	
Depreciation and amortization	42,884		31,395	
Decrease in operating capital	(56,157	)	(59,567	)
Other non-cash items	31,365		24,481	
Net cash provided by operating activities	79,841		68,574	
Cash flows from investing activities:				
Purchases of property, plant and equipment	(64,995	)	(60,979	)
Acquisitions of businesses, net of cash acquired, and other	(204	)	1,489	
Insurance proceeds received	—		1,359	
Net cash used in investing activities	(65,199	)	(58,131	)
Cash flows from financing activities:				
Proceeds from long-term debt	240,600		486,900	
Repayments of long-term debt	(218,800	)	(486,900	)
Net repayments of short-term debt	(10,684	)	(534	)
Repurchase of common stock	(15,996	)	(50,000	)
Payments related to share-based compensation awards	(10,770	)	(8,052	)
Purchase of shares from noncontrolling interests	(2,015	)	—	
Distributions to noncontrolling interests	(394	)	(749	)
Payment of contingent consideration	(2,407	)	(3,323	)
Proceeds from construction allowance	219		4,074	
Net cash used in financing activities	(20,247	)	(58,584	)
Effect of exchange rate changes on cash and cash equivalents	(3,189	)	(424	)
Net decrease in cash and cash equivalents	(8,794	)	(48,565	)
Cash and cash equivalents - beginning of period	25,222		77,393	
Cash and cash equivalents - end of period	$16,428		$28,828	

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 January 31, 2015 and October 31, 2014, the consolidated results of its operations for the three months ended January 31, 2015 and 2014 and its consolidated condensed cash flows for the three months ended January 31, 2015 and 2014. 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, 2014. 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
- Net realizable value of inventory
- Valuation of goodwill
- Business combinations
- Income taxes
- Share-based compensation

During the fiscal first three months of 2015, 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, 2014, for a more complete discussion of our estimates and critical accounting policies.

Accounting Pronouncements Issued Not Yet Adopted

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 sets forth a new revenue recognition model that requires identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price to performance obligations

and recognizing the revenue upon satisfaction of performance obligations. The amendments in the ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. We are currently evaluating the impact of ASU 2014-09, which is effective for the Company in our fiscal year beginning on November 1, 2017.

Accounting Pronouncements Recently Adopted

On November 1, 2014, we adopted ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 requires an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. When a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available, or the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of ASU 2013-11 did not have a significant impact on our consolidated financial statements.

Note 2. Acquisitions

Sauflon Acquisition

On August 6, 2014, which we refer to as the Sauflon acquisition date, we completed the acquisition of the entire issued share capital of Sauflon Pharmaceuticals Limited (Sauflon), a privately-owned European manufacturer and distributor of soft contact lenses and solutions, based in Twickenham, United Kingdom. The fair value of the consideration transferred for Sauflon was approximately $1,073.2 million in cash, $1,063.1 million net of cash acquired, and approximately $58.0 million in the form of loan notes issued by Cooper. The loan notes are denominated in British pounds and are classified as short-term debt.

The Sauflon acquisition was intended to accelerate the growth in sales of our single-use products by enabling a multi-tier, single-use strategy with a full suite of hydrogel and silicone hydrogel product offerings in the major product categories of sphere, toric and multifocal lenses. This acquisition was also intended to provide for enhanced relationships with key European retailers and opportunities for operational synergies.

The acquisition was accounted for under the acquisition method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value. While the acquisition was completed on August 6, 2014, we accounted for the acquisition as of August 1, 2014, and have included the operating results of Sauflon in our CooperVision business segment from that date. The impact of Sauflon's results of operations for the period August 1, 2014 through August 5, 2014 on our CooperVision 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 Sauflon between August 1, 2014 and August 6, 2014 was de minimis.

The following table summarizes our consideration paid for Sauflon and the preliminary allocation of purchase price to assets acquired and liabilities assumed recognized on August 1, 2014. We repaid substantially all of the acquired debt concurrently with the acquisition with our available funds.

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(Unaudited)

(In millions)	Useful Lives of Intangible Assets	August 1, 2014 Fair Value
Goodwill		$857.1
Trademarks	10 years	$7.2
Technology	10 years	138.2
Customer relationships	15 years	39.3
License and distribution rights and other	2 to 5 years	51.6
In-process research and development	N/A	43.1
Purchased intangible assets		$279.4
Cash and cash equivalents		$10.1
Property, plant and equipment		83.9
Inventories		36.2
Trade accounts receivable		42.3
Other current assets		6.9
Debt		(85.1)
Accounts payable		(23.6)
Long term deferred tax liabilities		(56.5)
Other creditors and current liabilities		(19.6)
Net tangible liabilities		$(5.4)
Total purchase consideration		$1,131.1

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 Sauflon was ascribed to our CooperVision business segment and is not amortized. This goodwill includes the following:

The expected synergies and other benefits that we believe will result from combining the operations of Sauflon with the operations of CooperVision;

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 Sauflon's existing businesses (the higher rate of return on the assembled collection of net assets versus if CooperVision had acquired all of the net assets separately).

Management determined fair values of the identifiable intangible assets through a combination of income approaches including relief from royalty, with-and-without, multi-period excess earnings and disaggregated 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 fair value of assets acquired and liabilities assumed was based upon preliminary valuations, and our estimates and assumptions are subject to change as the valuations are finalized, within the measurement period not to exceed 12 months from the acquisition date. We are currently in the process of verifying data and finalizing information related to the Sauflon valuation and recording of liabilities, commitments and contingencies, including potential legal matters, income taxes and the corresponding effect on goodwill.

The unaudited pro forma financial results presented below for the three months ended January 31, 2014, include the effects of pro forma adjustments as if the acquisition occurred on November 1, 2012. The pro forma results were prepared using the acquisition method of accounting and combine the historical results of Cooper and Sauflon for the three months ended January 31, 2014, including the effects of the business combination, primarily amortization expense related to the fair value of identifiable intangible assets acquired, and interest expense associated with the financing obtained by Cooper in connection with the acquisition. The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the earliest period presented, nor is it intended to be a projection of future results.

Three Months Ended January 31,	
(In millions, except per share amounts, unaudited, pro forma)	2014
Revenue	$448.8
Net income attributable to Cooper stockholders	$68.3
Diluted earnings per share	$1.39

The pro forma results for the three months ended January 31, 2014 were adjusted to include pre-tax amortization of intangible assets totaling $7.4 million, and an additional $1.1 million of interest expense.

Note 3. Restructuring and Integration Costs

2014 Sauflon Integration Plan

During the fiscal fourth quarter of 2014, in connection with the Sauflon acquisition, our CooperVision business unit initiated restructuring and integration activities to optimize operational synergies of the combined companies. These activities include workforce reductions, consolidation of duplicative facilities and product rationalization. We estimate that the total restructuring costs under this plan will be $74.0 million. These costs include about $48.0 million associated with assets, including product rationalization and related equipment disposals and accelerated depreciation, and about $26.0 million associated with employee termination costs and facility lease termination costs. We expect these activities to be completed by our fiscal first quarter of 2016.

In the fiscal first quarter of 2015, we recorded restructuring charges of $8.7 million for product rationalization, including production-related asset disposals and accelerated depreciation on equipment, primarily related to our hydrogel lenses, based on our review of products, materials and manufacturing processes of Sauflon; and $0.1 million for employee termination costs. The product rationalization charges were recorded in cost of sales and the employee termination costs were recorded in research and development expense. In addition, Coopervision incurred $5.9 million of integration costs recorded in selling, general and administrative expense.

In fiscal 2014, we recorded restructuring charges of $20.3 million for employee termination costs; $15.3 million for product rationalization, including inventory write-offs and production-related asset disposals, primarily related to our Avaira Toric contact lenses, based on our review of products, materials and manufacturing processes of Sauflon; and $0.5 million of lease termination costs for facility closures. In addition, CooperVision incurred $2.8 million of integration costs recorded in selling, general and administrative expense.

Of the employee termination costs, $19.7 million were recorded in selling, general and administrative expense and $0.6 million in research and development expense. The product rationalization costs were recorded in cost of sales. The lease termination costs and other related costs were recorded in selling, general and administrative expense.

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The following table summarizes the restructuring activities by major component for the fiscal year ended October 31, 2014 and the three months ended January 31, 2015:

(In millions)	Employee-related	Facilities-related	Product Rationalization	Total
Additions during fiscal 2014	$20.3	$0.5	$15.3	$36.1
Payments during the fiscal year	(0.4)	—	—	(0.4)
Non-cash adjustments (b)	—	—	(15.3)	(15.3)
Balance at October 31, 2014	19.9	0.5	—	20.4
Additions during the three months ended January 31, 2015	0.1	—	8.7	8.8
Payments during the three months ended January 31, 2015	(0.3)	—	—	(0.3)
Non-cash adjustments (a) (b)	(1.4)	—	(8.7)	(10.1)
Balance as of January 31, 2015	$18.3	$0.5	$—	$18.8

(a) Non-cash adjustments represent the currency translation adjustment for employee-related costs.
(b) Non-cash adjustments for product rationalization represent equipment disposals, inventory write-offs and accelerated depreciation.

Note 4. Inventories

(In thousands)	January 31, 2015	October 31, 2014
Raw materials	$77,979	$76,870
Work-in-process	16,273	14,344
Finished goods	295,849	290,260
	$390,101	$381,474

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.

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(Unaudited)

Note 5. Intangible Assets

Goodwill

(In thousands)	CooperVision	CooperSurgical	Total
Balance as of October 31, 2013	$1,048,478	$339,133	$1,387,611
Net additions during the year ended October 31, 2014	857,146	25,543	882,689
Translation	(44,063)	(5,316)	(49,379)
Balance as of October 31, 2014	1,861,561	359,360	2,220,921
Translation	(57,017)	(6,327)	(63,344)
Balance as of January 31, 2015	$1,804,544	$353,033	$2,157,577

We performed our annual impairment assessment in our fiscal third quarter of 2014, and our analysis indicated that we had no impairment of goodwill. As described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014, we will continue to monitor conditions and changes which could indicate that our recorded goodwill may be impaired.

Other Intangible Assets

	As of January 31, 2015		As of October 31, 2014	
(In thousands)	Gross Carrying Amount	Accumulated Amortization & Translation	Gross Carrying Amount	Accumulated Amortization & Translation
Trademarks	$20,351	$3,214	$21,281	$2,937
Technology	314,223	99,081	326,620	93,780
Customer relationships	225,252	93,273	233,246	90,704
License and distribution rights and other	70,464	16,679	73,479	13,600
	630,290	$212,247	654,626	$201,021
Less accumulated amortization and translation	212,247		201,021	
Other intangible assets, net	$418,043		$453,605	

We estimate that amortization expense for our existing other intangible assets at January 31, 2015, will be $50.3 million in fiscal 2015, $47.5 million in fiscal 2016, $44.3 million in fiscal 2017, $42.4 million in fiscal 2018 and $39.7 million in fiscal 2019.

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(Unaudited)

Note 6. Debt

(In thousands)	January 31, 2015	October 31, 2014
Short-term:		
Loan notes issued for Sauflon acquisition	$51,707	$55,074
Overdraft and other credit facilities	41,088	46,444
	$92,795	$101,518
Long-term:		
Credit agreement	$301,300	$279,500
Term loans	1,000,000	1,000,000
Other	1,242	1,333
	$1,302,542	$1,280,833

Credit Agreement

On May 31, 2012, Cooper entered into an 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 Credit Agreement, as amended, provides for a multicurrency revolving credit facility in an aggregate commitment amount of $1.0 billion and the aggregate commitment amount under the revolving facility may be increased, upon written request by Cooper, by $500.0 million. The amended Credit Agreement has a termination date of May 31, 2017.

In connection with the Sauflon acquisition, on June 30, 2014, we entered into an amendment (Credit Agreement Amendment) to the Credit Agreement, dated as of January 12, 2011, as amended, by and among (i) the Company, (ii) CooperVision International Holding Company, LP, an indirect subsidiary of the Company, (iii) the lenders from time to time party thereto and (iv) Keybank National Association, as administrative agent. The Credit Agreement Amendment modifies certain provisions of the Credit Agreement to, among other things, amend certain restrictive covenants and related definitions to allow for certain indebtedness, investments, guaranty obligations, acquisitions, intercompany loans, capital distributions and dispositions of assets made or to be made in connection with the acquisition.

The commitment fee rate ranges 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). The applicable margin rates on loans outstanding under the Credit Agreement will bear interest based, at our option, on either the base rate or the adjusted Eurodollar rate (currently referred to as LIBOR) or adjusted foreign currency rate (each as defined in the amended 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, as defined in the Credit Agreement. 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 the Company'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 and the term loans discussed below, 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.

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(Unaudited)

At January 31, 2015, we were in compliance with the Interest Coverage Ratio at 55.74 to 1.00 and the Total Leverage Ratio at 2.45 to 1.00.
At January 31, 2015, we had $698.5 million available under the Credit Agreement.

$300.0 million Term Loan on September 12, 2013

On September 12, 2013, the Company entered into a five-year, $300.0 million, senior unsecured term loan agreement by and among the Company; the lenders party thereto and KeyBank National Association, as administrative agent. This syndicated credit facility, as subsequently amended, will mature on September 12, 2018, and will be subject to amortization of principal of 5% per annum payable quarterly beginning October 31, 2016, with the balance payable at maturity.

Amounts outstanding under this term loan agreement will bear interest, at the Company's option, at either the base rate, which is a rate per annum equal to the greatest of (a) KeyBank's prime rate, (b) 0.5% in excess of the federal funds effective rate and (c) 1% in excess of the adjusted Eurodollar rate (currently referred to as LIBOR) for a one-month interest period on such day, or the adjusted Eurodollar rate, plus, in each case, an applicable margin. The applicable margins will be determined quarterly by reference to a grid based upon the Company's Total Leverage Ratio, as defined in the term loan agreement, and consistent with the revolving Credit Agreement discussed above.

This term loan agreement contains customary restrictive covenants, as well as financial covenants that require the Company to maintain a certain Total Leverage Ratio and Interest Coverage Ratio, each as defined in the agreement, consistent with the revolving Credit Agreement discussed above. The agreement also contains customary events of default, the occurrence of which would permit the Administrative Agent to declare the principal, accrued interest and other obligations of the Company under the agreement to be immediately due and payable.

In connection with the Sauflon acquisition, on June 30, 2014, we entered into an amendment to this term loan agreement, dated as of September 12, 2013, by and among (i) the Company, (ii) the lenders from time to time party thereto and (iii) KeyBank National Association, as administrative agent. This term loan amendment modifies certain provisions of the term loan agreement to, among other things, amend certain restrictive covenants and related definitions to allow for certain indebtedness, investments, guaranty obligations, acquisitions, intercompany loans, capital distributions and dispositions of assets made or to be made in connection with the acquisition.

On August 4, 2014, we entered into Amendment No. 2 to this term loan agreement, dated as of September 12, 2013, as amended by Amendment No. 1 dated as of June 30, 2014, by and among the Company, the lenders party thereto and KeyBank National Association, as administrative agent. The term loan amendment modifies certain provisions of the term loan agreement to remove the call premium related to prepayments and/or refinancing of the term loan agreement, effective August 4, 2014.

At January 31, 2015, we had $300.0 million outstanding under the Term Loan.

$700.0 million Term Loan on August 4, 2014

On August 4, 2014, we entered into a three-year, $700.0 million, senior unsecured term loan agreement by and among the Company, the lenders party thereto and KeyBank National Association as administrative agent. This syndicated credit facility will mature and the balance is payable on August 4, 2017. There is no amortization of principal and we may prepay loan balances from time to time, in whole or in part, without premium or penalty.

Amounts outstanding under this term loan agreement will bear interest, at the Company’s option, at either the base rate, which is a rate per annum equal to the greatest of (a) KeyBank’s prime rate, (b) 0.5% in excess of the federal funds effective rate and (c) 1% in excess of the adjusted Eurodollar rate (currently referred to as LIBOR) for a one-month interest period on such day, or the adjusted Eurodollar rate, plus, in each case, an applicable margin. The applicable margins will be determined quarterly by reference to a grid based upon the Company’s Total Leverage Ratio, as defined in the term loan agreement and consistent with the revolving Credit Agreement discussed above.

This term loan agreement contains customary restrictive covenants, as well as financial covenants that require the Company to maintain a certain Total Leverage Ratio and Interest Coverage Ratio, each as defined in the agreement, and consistent with the revolving Credit Agreement as discussed above. This term loan agreement also contains customary events of default, the occurrence of which would permit the Administrative Agent to declare the principal, accrued interest and other obligations of the Company under the agreement to be immediately due and payable.

In August 2014, we utilized this facility to fund the acquisition of Sauflon, as well as to provide working capital and for general corporate purposes.

At January 31, 2015, we had $700.0 million outstanding under this term loan.

Note 7. Income Taxes

Our effective tax rate (ETR) (provision for income taxes divided by pretax income) for the fiscal first quarter of 2015 was 8.5%. Our year-to-date results reflect the projected fiscal year ETR, plus any discrete items. The ETR used to record the provision for income taxes for the fiscal first quarter of 2014 was 9.1%. 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. At November 1, 2014, Cooper had unrecognized tax benefits, that if recognized, $32.0 million would impact our ETR. For the three-month period ended January 31, 2015, there were no material changes to the total amount of unrecognized tax benefits.

Interest and penalties of $4.1 million have been reflected as a component of the total liability at November 1, 2014. 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, 2014, is $10.2 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.

At January 31, 2015, the tax years for which Cooper remains subject to United States Federal income tax assessment upon examination are 2011 through 2014. Cooper remains subject to income tax examinations in other significant tax jurisdictions including the United Kingdom, Japan, France and Australia for the tax years 2011 through 2014.

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Note 8. Earnings Per Share

Three Months Ended January 31,		
(In thousands, except per share amounts)	2015	2014
Net income attributable to Cooper stockholders	$61,179	$71,843
Basic:		
Weighted average common shares	48,202	48,006
Basic earnings per common share attributable to Cooper stockholders	$1.27	$1.50
Diluted:		
Weighted average common shares	48,202	48,006
Effect of potential dilutive common shares	880	1,000
Diluted weighted average common shares	49,082	