

# FINAL TRANSCRIPT

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**COO - Q3 2009 The Cooper Companies, Inc. Earnings Conference Call**

Event Date/Time: Sep. 03. 2009 / 9:00PM GMT



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## CORPORATE PARTICIPANTS

**Kim Duncan**

*The Cooper Companies, Inc. - Director IR*

**Bob Weiss**

*The Cooper Companies, Inc. - President, CEO*

**Gene Midlock**

*The Cooper Companies, Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Peter Bye**

*Jefferies & Co. - Analyst*

**Matt**

*BMO Capital Markets - Analyst*

**Larry Biegelsen**

*Wells Fargo - Analyst*

**Jeff Johnson**

*Robert W Baird - Analyst*

**Steve Willoughby**

*Cleveland Research - Analyst*

**Jared Holz**

*Thomas Weisel Partners - Analyst*

**Chris Cooley**

*FTN Equities - Analyst*

**Mike Weinstein**

*JPMorgan - Analyst*

**Amit Bhalla**

*Citibank - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the third quarter 2009 The Cooper Companies Incorporated earnings conference call. I'll be your coordinator for today. At this time, all participants are in listen-only mode. We'll be facilitating a question-and-answer session at this time. All participants are in listen-only mode. (Operator Instructions). I'd now like to turn this presentation over to your host of today's call, Ms. Kim Duncan, Director of Investor Relations. Please proceed ma'am.

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**Kim Duncan** - *The Cooper Companies, Inc. - Director IR*

Good afternoon, and welcome to The Cooper Companies third quarter 2009 earnings conference call. I'm Kim Duncan, Director of Investor Relations, and joining me on today's call are Bob Weiss, President and Chief Executive Officer, Gene Midlock, Chief Financial Officer, and Al White, Vice President, Investor Relations and Treasurer. Before we get started I'd like to remind you that this conference call contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 including all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market conditions and manufacturing restructuring plans. Forward-looking statements depends on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Events that could cause our actual results and

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future actions of the Company to differ materially from those described in the forward-looking statements are set forth under the caption forward-looking statements in today's earnings release and are described in our SEC filings including the business section of Cooper's annual report on Form 10K. These are publicly available and on request from the Company's Investor Relations department. Now, before I turn the call over to Bob Weiss, let me comment on the agenda for the call.

Bob will begin by providing some highlights on the quarter and then get into the specific details including new products, the market and guidance. Following Bob's remarks, Gene Midlock will comment on the third quarter financial results and provide some additional guidance. We will then open up the call for questions. We'll keep the formal presentation to roughly 30 minutes of prepared remarks followed by 30 minutes of Q&A, so the call will last a total of one hour. We request that anyone asking questions please limit yourself to only one question so that we may get to as many callers as possible. Should you have additional questions following the call please call our investor line at 925-460-3663, that's 925-460-3663, and we'll get back to you as soon as possible. As a reminder, this call is being recorded and a copy of the press release is available on our website at cooperco.com under investor relations. And with that, I'll turn the call over to Bob for his opening remarks.

**Bob Weiss - The Cooper Companies, Inc. - President, CEO**

Thank you, Kim, and welcome, everyone, to our third quarter earnings call. Let's get right into it. Here is what I'm happy about. First of all sales, CooperVision and CooperSurgical both posted solid revenues and we remain one of the rare companies these days with positive growth. Operating expenses, we continue to deliver cost containment without cutting into the muscle of the organization. As far as free cash flow, a wow factor. \$56 million in free cash flow this quarter was extremely strong and our trailing four quarter number is \$89 million, shows that we are capable of generating some solid cash flow. Silicon hydrogel, our silicon hydrogel sales were almost \$32 million this quarter, equating to \$127 million of annualized sale run rate. This puts us well on our way to exceeding our guidance of \$100 million for the fiscal year.

Now, what needs to be explained? Well that's obvious, gross margins. I know all of you were expecting a better earnings per share number and this misses entirely in our gross margins. We had several items which we expected including the \$4.1 million that was the manufacturing restructuring as a result of the Norfolk decision, \$2.3 million which was idle equipment as a result of our decision to cut back on inventory levels, a net \$7.9 million of currency which is reflected in our hedging numbers. These totaled \$14.3 million and reduced gross margins around 500 basis points, but we also had \$4.1 million in inventory and equipment write-offs and this was a disappointment and was a surprise. This reduced gross margins around 150 basis points and impacted earnings per share around \$0.09. Although I didn't expect it, it's part of doing business.

We expect a little more in our fourth fiscal quarter, but we already have built that into our guidance. These numbers obviously show the downside, but I will say we're working through all of the operational items and the gross margins will improve as we complete the Norfolk integration into the UK and Puerto Rico plants. With respect to currency I won't get into the details, but I will say that our hedging program allows us to see what's coming and unlike a lot of companies, we have already seen their upside. Ours relates to a weaker pound which we will have yet to see in our cost of goods. This will be seen over the next year. In spite of all of this activity I feel comfortable with a 60% gross margin in the coming years and I believe this quarter will mark the low point. Now let me get into more details on the business before I turn it over to Gene who will cover the financial highlights.

First of all, the quarter excluding gross margins was solid, \$76 million of operating cash flow, \$56 million of free cash flow, needs no explanation. Revenue of \$285 million is up 4% in constant currency and shows we're recession resistant. CooperSurgical turned in a solid quarter with revenue up 4% in constant currency and a solid 24% operating income margin. Excluding Norfolk, our \$0.54 of earnings per share leaves us on track for \$2.29. As far as new products are concerned and what's driving our market share gains, our solid silicon hydrogel revenue was \$32 million, easily on track to exceed the \$100 million we guided you to. Components of silicon hydrogel, Biofinity sphere, \$21.2 million in revenue up 57% in constant currency versus the prior year. Avaira, \$7 million in revenue up 85% in constant currency compared to the prior year. Biofinity toric had \$3.6 million in revenue,



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and of course it's just getting started. Importantly, biofinity toric is performing outstandingly. August for example had revenue of \$1.6 million in the US and is running at an annualized run rate of \$20 million.

It is the first month we've had year-over-year growth in our toric category in the US in a long time. We currently have about a 10,000 fitting sets placed, 5,000 in the US, with 13,000 still to go and another 5,000 outside the US. Keeping in mind this is an Rx rollout, meaning the sales we're recording are on eye. Other notable stars in our product portfolio, Proclear Family \$70 million in revenue and the quarter was up 11% in constant currency and represents a \$280 million run rate. Proclear family of products reflects 29% of CooperVision's revenue. Our one day hit -- our one day sales hit \$50 million plus 9% in constant currency. It's now 21% of revenue.

Geographically our growth was mixed. Europe was up 7% in constant currency while Asia Pacific was up 5%. The Americas, however, was flat as was the market. The Americas reflects our large toric share, which is still declining double digits in the third quarter given that we're early into the rollout of Biofinity toric. We believe Biofinity toric's continued ramp up will plug this gap, August was a good start. About the market, the second quarter showed an increase of 1.4% constant currency worldwide, which brings the year-to-date growth to 2.5%, and you may recall that at the beginning of the year we guided you to 0% to 4% in constant currency for 2009. Year-to-date, one day is up 1% constant currency, while multifocals is up 20%, toric is up 6% worldwide, silicon hydrogel is up 19%, and regionally Americas are up 4%, while Europe was up 5% and Asia Pacific has declined 1%, net worldwide is up 2.5% worldwide.

We are gaining share at the rate of about 1.7 times the market both in the quarter as well as year-to-date, and importantly, HPR data, Health Products Research, reflects a favorable year-to-date trend for total fits and new fits where CooperVision has gained two points, Ciba gained one point and Vistakon has lost three share points in both categories. Capital expenditures and cash flow as well as liquidity, I'll let Gene deliver the details, but in summary Q3 delivered outstanding cash flow, \$76 million of operating cash flow, \$56 million of free cash flow. Our trailing 12 month free cash flow now stands at \$89 million. Our capital expenditures dropped to \$20 million in the third quarter and we dropped our debt to total cap ratio from 40% at the end of January down to only 36%. Most of the free cash flow reflects lower capital requirements, a reduced headcount and the reduction of inventory levels.

Headcount reductions in manufacturing will show up initially in cash and on a six to seven month lag in our gross margins. More than one half of our 685 headcount reductions that we recently reported when we announced Norfolk took place early in the last 12 months or in the last 12 months. Many of these have yet to show up in our cost of goods. CooperSurgical, our women's healthcare franchise, continues to buck the recession, averaging trends that are very favorable in both hospitals and in the office practice. Revenues up 4% reflects strong hospital sales of 10%. Our operating margins at 24% demonstrate the efficiency of this business with a 62% gross margin and operating costs reflecting economies of scale.

In terms of guidance, our \$0.54 excluding Norfolk leaves us on track for the range of \$2.27 to \$2.29 in earnings per share. Our fourth quarter has a large discrete tax pick up. Our fourth quarter will start seeing the benefits of earlier headcount reductions, less write-offs and a lower pound charges in cost of goods. The great news is we are increasing free cash flow in our outlook to \$100 million range compared to the \$70 million that we previously have given you. We've also greatly narrowed our 2009 guidance range compared to the previous and this is reflected in both in the top half revenue and earnings per share excluding the Norfolk restructuring.

Now to talk briefly about strategies and outlook, we continue our endeavors to get leaner. Upon completing the Norfolk shut down, we will cumulatively have reduced headcount by about 1,250 people in the manufacturing area, that's 29% improvement, with higher production output that's also 29% improvement in efficiency. While short-term, this event negatively impacts gross margin, long term 29% improvement will facilitate our 60% gross margin goals. While foreign exchange write-offs, restructuring and idle equipment charges are preventing 60% from happening in the short-term, we believe optimizing the plants will get us to our 60% goal in the intermediate term which is post 2010. Short term 2009 and 2010, cutting back on production will reduce months on hand, but will be a drag on our gross margin. As we normalize months on hand capacity utilization will increase.



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Even with the Norfolk fold-in, our two large facilities will be operating below 70% capacity as we complete that. This is why going forward CapEx will likely remain below the \$100 million level indefinitely. Of course some of the new product pipeline we will have next year, the introduction of Biofinity Multifocal and Avaira toric both in the first half of calendar year 2010 will have some CapEx needs. While next year we plan on spending \$10 million in cash to complete the Norfolk integration, our goal for \$1.3 billion in operating cash flow and \$800 million of free cash flow by 2013 remains intact. Our free cash flow performance leaves us on track for CooperSurgical acquisitions in 2010. We expect any acquisitions to be tuck in that should be exclusive of acquisition entries accounting like direct costs of acquisitions and process R&D and things of that nature. We expect them to be accretive within 12 months. Some acquisitions, however, that contribute to accelerating top line growth, may be beyond 12 month targets. Given CooperSurgical does not have a head-to-head competitor, this strategy remains a low risk, high reward strategy that we've been successfully executing since the early 1990s, almost 20 years now.

In summary before I turn it over to Gene, remember today's takeaways. We are delivering solid free cash flow. This free cash flow is expected to continue. Our silicon hydrogel is maintaining momentum. The Biofinity toric rollout is exceeding all of our expectations. Following completion of the Norfolk plant shut down into the UK and Puerto Rican plants, our efficiency output will be up 29% compared to the early part of 2008. This efficiency will be reflected in improving gross margins. We expect to achieve the 60% post 2010. The market for soft contact lenses remains recession-resistant, and importantly, we continue to gain share in the soft contact lens market growing at about 1.7 times the market. While we have surprised or disappointed some of you this quarter, I'm convinced that in these challenging economic times we are taking all the right steps for the long term health of the Company. Now let me turn it over to Gene.

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**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

Good afternoon, everyone, and thank you for joining us today. Before I begin the review of the third quarter statement of income, I would like to comment on a few aspects of the balance sheet. Let's begin with cash. As Bob indicated, in Q3 we had approximately \$76 million of operating cash flow and capital expenditures of \$20 million. This resulted in \$56 million of free cash flow. Through the third quarter, we have generated approximately \$71 million of free cash flow and expect to generate approximately \$100 million for the year. The trailing 12 months free cash flow is \$89 million. As a result we have been able to reduce our indebtedness by almost \$57 million to \$839 million from Q2, which leaves approximately \$237 million of total credit availability. The \$650 million revolver is now around \$450 million.

At the end of the third quarter, we decreased the ratio of funded debt to EBITDA from 3.24 at the end of the second quarter to 3.16. This will result in a continued interest savings of 25 basis points. Turning to inventories, we decreased the level by \$11.3 million from the second quarter with months on hand decreasing from 7.8 to 6.0, an excellent job by our supply chain folks. Accounts receivable were also closely monitored, especially in this recessionary time, and our DSOs or days outstanding remained at 48 days.

Now, turning to the income statement let's start with revenue. Bob provided a good overview of the components of revenue that we earned during the quarter, so I will not repeat those details. Suffice it to say, most of our businesses had a good quarter in light of the global recession. CooperVision grew 2% which is 3% in constant currency over last year's third quarter. For the calendar quarter, second calendar quarter, it grew out 1.7 times the market, so we continue to gain share. CooperSurgical grew 4% over last year in a difficult market, especially for capital equipment and hospitals. Overall a pretty solid performance for Cooper with 4% growth in constant currency.

Turning to the gross margin, Bob also covered several of those details and explained why it was approximately 7% less than we had expected. Several of these non-cash period charges were anticipate and as we continue to restructure and streamline our manufacturing operations we will have more of those in the future. The unexpected asset write-offs, and by unexpected I mean the dollar amount, not the fact that we're having write-offs, were only 0.4% of our total asset base. While we are disappointed with adjustments like this, they will happen from time to time in a multinational manufacturing operation like Cooper's. As Bob indicated, we do expect the gross margin to return to the 60% range in the near future.



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Looking at the rest of the income statement, consolidated SG&A expenses decreased by 10% from the prior year to \$100 million and decreased as a percentage of sales to 35% from 40%. This decrease reflects the cost control procedures that we had discussed with you in previous quarters. I will note that in the first two quarters of the fiscal year we got some help from currency, but that is greatly dissipating as the dollar weakens in the third quarter, so most of the savings were again by cost containment measures. For CooperVision, selling expenses also decreased by 10% from Q3 last year and are 27% of revenue down from 31%. G&A expenses decreased by 17% from the prior year and were 6% of revenue down from 7% last year.

For CooperSurgical, selling expenses decreased 4% to 26% of revenue versus 28% last year. G&A decreased by 2% from last year, again, attributable to across-the-board cost containment activities, and our 6% of revenue versus 7% last year. R&D decreased by 14% from last year to \$7.7 million but still remain 3% of revenue. I will note that this is illusionary because what really happened was we changed the allocation or apportionment of certain overhead expenses, so they came out of the R&D department and went into our advanced manufacturing technology department which is in part a cost of goods sold. So really the decrease is largely attributable to reallocation method. Looking at restructuring, we did issue a press release a few weeks ago about Norfolk. We have initiated a plan to better utilize our manufacturing efficiencies gained over the last year. We'll relocate the Norfolk soft contact lens manufacturing operations and those in Adelaide, Australia to existing operations in Puerto Rico and the UK. Total cost of the plan is estimated at \$25 million of which \$10 million will be in cash and that will be primarily in the next fiscal year 2010.

We recognized \$4.1 million in Q3 and estimate that we'll record \$7.5 million in Q4 with the balance recognized next year. Of the total cost about \$17 million is associated with assets including accelerated depreciation and facility leasing contract for renovation costs and about \$8 million associated with employee benefit costs such as severance and termination and so forth. Upon completion, we anticipate annual cash savings of about \$14 million beginning in fiscal 2011 with earnings improvement is about \$7.5 million in fiscal 2011 and \$15 million thereafter. Consolidated operating margin decreased or increased, I'm sorry, to 12% up from 11% last year. CVI was flat at 12% both periods, while CSI had another killer quarter increasing to 24% up from 20% in the third quarter of 2008.

Just as a note, if we didn't have all of the gross margin adjustments, our operating margin would have been around 18%. As you would expect with our debt retirement, interest expense decreased by \$4.2 million or 27% in Q3 from last year at \$11.1 million. This reflects the reduction in interest rates attributable to the maintenance of our strong funded debt to EBITDA ratio and our reduced borrowings. Let's now look at the effective tax rate for the quarter which was 3.4% versus a negative 2% last year. And the 3.4% was generally attributable to three items. First of which is the CVI manufacturing restructuring plan, costs of which are largely recognized in the US which is a high rate tax jurisdiction at 39%.

The second aspect is the recognition of fairly material discrete items in the third quarter and lastly our mix of income changes amongst the 49 countries for which we are taxed. And this is important because we go from a high tax rate of 41% in Japan to lower rates like 12% in Korea and 18% in Singapore and so forth, so the mix of income does have an impact on the rate. We estimate now that the effective rate for the full year will be approximately 11% to 12% and the rate in Q4 will be extremely low, lower than Q3 because of the large discrete items that Bob mentioned. Just to make a final comment on taxes, in light of the significant fluctuation and the effective tax rate between quarters, because in the past some people have somewhat inferred that management overly influences tax rate. And it should be noted and I'm sure you're aware that calculation of the taxes and audited financial statements are governed by very strict GAAP accounting rules, and then these calculations are reviewed in detail by KPMG when they review our financial statements and are signed off on.

In addition, Ernst & Young, our advisors, in some cases McDermott Will & Emery, our legal advisors, also review the calculations, so there really isn't any room for arbitrary adjustments. The movement between the quarters is again solely governed by the accounting literature. Looking at depreciation and amortization, depreciation was \$17.8 million in the quarter, \$1 million of accelerated depreciation, and amortization was \$4.2 million for total non-cash charges of \$22 million. Stock option compensation was \$2.4 million and we expect another \$1.4 million in Q4 for a total of \$11.8 million for the year.



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I would like to conclude now by reiterating the guidance specifically. It's presented in the press release, but to avoid any confusion like we had last quarter I'll just go through step by step. So for the fourth quarter, revenue guidance for CooperVision is \$230 million to \$240 million, and for the fiscal year we're guiding at \$900 million to \$910 million. For CooperSurgical, Q4 will have \$41 million to \$45 million and for the year, \$168 million to \$172 million. In total, for Q4 we're guiding \$271 million to \$285 million, and for the year, \$1.68 billion to \$1.82 billion.

Earnings per share guidance, GAAP purposes, Q4 will be \$0.56 to \$0.58, and for the year, \$2.11 to \$2.13. Non-GAAP will be \$0.66 to \$0.68 in Q4, reflecting \$0.10 of charges for the Norfolk adjustment. For the year, GAAP will be \$2.11 to \$2.13, and non-GAAP will be \$2.27 to \$2.29 which again reflects the \$0.16 of charges, the \$0.06 in Q3 and \$0.10 in Q4. Free cash flow for the fourth quarter will be \$22 million to \$32 million, and for the year, \$93 million to \$103 million. So, a pretty solid results on the cash flow. With that, I'll turn the call back over to Kim to begin the Q&A.

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**Kim Duncan** - *The Cooper Companies, Inc. - Director IR*

Operator are you there?

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## QUESTIONS AND ANSWERS

### Operator

Yes, I am. (Operator Instructions). All your questions will be asked in the order received. (Operator Instructions) Our first question will be from the line of Peter Bye from Jefferies & Co. Please proceed, sir.

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**Peter Bye** - *Jefferies & Co. - Analyst*

Thanks, guys, and appreciate you taking the question. Just first question would be there is no management bonus in the guidance?

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**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

I'll pass that question to Gene.

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**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

That's correct, Peter. The accounting rules would not allow us to accrue a bonus this quarter. To be able to accrue a bonus it has to be probable and estimatable. Since our target bonus is driven by two objective criteria, which before the bonus accrual can begin, our earnings per share number that's projected would not get us to the \$2.29 on a GAAP basis, so unless the Board of Directors subsequently decides later in the year to add a discretionary element, there will be no bonus accrual.

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**Peter Bye** - *Jefferies & Co. - Analyst*

Second one, I guess we started the year, this is a GAAP year, right? It's sort of a new turn the page, and we've taken some charges Norfolk and some other ones as well. And I guess just how are investors supposed to look, the free cash flow is great but 1997 to 2005 probably proves to be a pure underinvestment in the business, about the 2%, 1% R&D reinvestment rate, maybe you aren't investing enough in the business at that time and now you've got a 2.7% R&D rate and CapEx dropping with gross margin

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dropping. What do you say to investors about how you're maybe sacrificing the short term for the long term for some cash flow? Just maybe if you could just address that question?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Sure, Peter. I think there's a perception that we're somehow limiting capital that we need to spend and I don't know how clearer to say it than to say --

**Peter Bye** - *Jefferies & Co. - Analyst*

But just wrapping R&D into the question too a little bit, Bob, whether you want to capitalize R&D in a manufacturing expertise, the gross margin is obviously concerning. It's been concerning for a bit of time, so maybe just not just CapEx but also R&D.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Okay, well I'll put them all together. R&D, you have CapEx and you have the gross margins, and clearly, when it comes to concerns about generating cash by cutting back on capital expenditures, I think we've been pretty clear that when you're running a business at 60% capacity, you don't need more plant, you need to utilize that plant. So hopefully there's no real perception out there that we're not spending money we need to allow us to build and go forward. On R&D, quite frankly we've always been a Company that has not spent a lot of money on the R&D line, however we have spent a fair amount of money in process development which we record in cost of goods, not in R&D. So there is some companies might in fact pull it out of manufacturing and put it on R&D and look like they're real R&D companies. Maybe we should, but we haven't. As far as --

**Peter Bye** - *Jefferies & Co. - Analyst*

Just on that one could you just delineate what that might be? Like what are you spending in manufacturing R&D, because obviously that's been a problem for a while and now you sort of overcome the systemic risks and you produce product, but maybe give investors an idea of what you've been doing over the past couple months and maybe even this quarter specifically what that number was?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Well, I don't know that we have the accounting system to have captured it all because we haven't tracked it as if it's R&D. I would say that the amount of energy in the cost of goods area that goes into developing improved production. For example, we've frequently talked about getting the alcohol [auto] making silicon hydrogel and there is significant dollars being spent on that activity. The R&D effort to change if you will cycle times or the manufacturing effort to change cycle times easily could be -- develop a new piece of equipment, record that all through R&D. We just don't do it that way. I would say we probably more than double, I don't know if that's the correct number, that's just off the top of my head, but it would be a substantial increase in the R&D level. So I think we need to make sure we give everyone else a chance at questions so I'm going to move on, Peter, but by far certainly if you have more questions you want to cover them at the end of the call, we can cover additional questions then also.

**Peter Bye** - *Jefferies & Co. - Analyst*

Great. Thanks, Bob.

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**Operator**

Alright. Thank you. Our next question will be from the line of Joanne Wuensch, please proceed.

**Matt** - *BMO Capital Markets - Analyst*

Hi, this is Matt on for Joanne. Can you hear me?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Yes, Matt.

**Matt** - *BMO Capital Markets - Analyst*

I have a couple questions here. I guess the first thing I wanted to address is we seen in our checks and it's sort of been apparent in online retailers over the past few weeks and months, that J&J has been aggressively pricing down some oasis products and offering rebate, bringing in more in line with Avaira, and haven't seen any kind of competitive response with you guys. Just wanted to get a comment as to if that's affecting your business at all and if you had any plan to change Avaira pricing or take a new tactic with that?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

That's a good question. I think the whole world is aware of J&J's busy doing different types of activities they have not in the past such as cutting the price by 20% for Oasis. There's a lot of answers to why are they doing it or a lot of speculation is probably better said from does it tie in with the [addition] source plan VSP, does it have to do with the litigation and the likelihood they're at risk with the Oasis in the US because of the current status of that litigation, or are there other reasons at play? We are not, you're correct, we are not reacting to what they're doing. Some of that activity has lead to filling the shelves if you will in the pipeline. Thus far it has not translated to them gaining market share.

You'll recall I mentioned that we're up two year-to-date. Ciba has gained one and Vistakon has lost three, so thus far nothing to react to. The next HPR data is not really due until the end of October. We get it 30 days after it's due, so there's not a early data point. It's through September we get it on a 30 day lag, so the answer is we're gaining share our own way and we believe in the products and we'll continue to act that way.

**Matt** - *BMO Capital Markets - Analyst*

Okay, great. And then I just wanted to ask about gross margins, you said post 2010 you're targeting 60%. Given some of the moving parts over the next five quarters, how do you see it playing out the end of this year? And if you could give color just qualitatively on next year.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

I think the one thing you have to call out is the numbers we've given for the restructuring which clearly are going to hit cost of goods, and in aggregate of the \$25 million we've said we will charge, we've already charged \$4 million, so there's \$21 million to go of which \$7.5 million will be in the fourth quarter. Excluding that, the idle equipment that we took a \$2.3 million charge which includes the Avaira line, two Avaira lines, the high volume as well as one fast track line, that is likely to continue through the first half of next year as we basically continue to reduce our inventory levels and reduce the throughput of the plants. That will then start upticking towards the back half of next year. Now the other thing that comes into play, don't understate the value



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which is showing up first in cash, but secondarily in gross margin, of that lag of basically the 1,250 people that are being removed from the production process. That is a substantial amount of money.

Assume that's a net earn on average more than \$30,000 and you can do your own math relative to the size of the whole pot. That will happen. Some of that has started to happen in the third quarter and has been masked in all that activity but there's a lot more still to come. We indicated that the write-offs, the \$4.1 million, there will be some build into the fourth quarter and then it should drop off and be normalized going forward. So look to our margins going certainly north of 50% next year excluding the Norfolk piece and then pointed towards that 60% for 2011.

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**Matt** - *BMO Capital Markets - Analyst*

Okay, thank you very much.

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**Kim Duncan** - *The Cooper Companies, Inc. - Director IR*

Next question?

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**Operator**

Thank you. Our next question will be from the line of Larry Biegelsen from Wells Fargo. Please proceed, sir.

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**Larry Biegelsen** - *Wells Fargo - Analyst*

Thanks for taking the question. Bob, in the press release you talked about certain challenges in the soft contact lens market and in the second quarter the market grew 1% constant currency. Can you talk about the challenges and can you talk a little bit about the trends you're seeing in July and August? Are things getting better, staying the same or worse?

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**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Well, you're correct. The challenges have been, and I used the term in the past, jerky. There are good months and there are bad months. We of course reported our growth for the month or for the quarter on a fiscal year basis as basically 3% which was the solid 3% in constant currency. August was up 5% worldwide, so we're off to a good start in the fourth quarter. Having said that, who knows. We know have easy comps in October, so presumably October is good. August has been good. Stay tuned. So we're optimistic about that.

The jerkiness, when I use that term, reflects for example, what happened in the second quarter compared to the first quarter if we look at the Americas went from basically 8% to a negative 1%, I believe it was, so that's what I call jerky. Now, did it really grow 8% in the first quarter and decline 1% in the second quarter? I really don't think so. I think some of that is a push-pull process. You have things going on with Oasis as someone pointed out a little while ago that come into play, so we're seeing contact lens market as we did at the beginning of the year, 0% to 4%, and so far we think we'll be in the upper half of that 0% to 4%, year-to-date 2.5%, generally pleased with that.

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**Larry Biegelsen** - *Wells Fargo - Analyst*

Thanks. And my second question is what's the constant currency growth rates implied in your fourth quarter sales guidance? Basically, what do you expect at the FX impact to be in the fourth quarter? Thanks.



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**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

The constant currency rate in the fourth quarter will be around -- let me think about that. Constant currency?

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

The number in the guidance is the as reported number.

**Larry Biegelsen** - *Wells Fargo - Analyst*

And so what are you expecting the FX impact to be in the fourth quarter?

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

We wouldn't forecast the FX impact on what the quarter is going to be in the future because that will depend on currency movements through the quarter, so all we do is guidance forecasting standpoint is through actuals.

**Larry Biegelsen** - *Wells Fargo - Analyst*

Okay, thanks.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

And you'll recall from hedging we pretty much -- we're within 1% this last quarter, but of course that's going to start moving around as the hedges annualize, so I think that is somewhat a moving number.

**Larry Biegelsen** - *Wells Fargo - Analyst*

Alright. Thanks a lot.

**Kim Duncan** - *The Cooper Companies, Inc. - Director IR*

Operator?

**Operator**

Thank you. Our next question will be from the line of Jeff Johnson from Robert Baird. Please proceed.

**Jeff Johnson** - *Robert W Baird - Analyst*

Hi, guys, good evening, how are you?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Hi, Jeff.

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**Jeff Johnson** - Robert W Baird - Analyst

Bob, wondering if we can just go back to gross margin. Hate to keep hammering on it here, but you said there was a \$7.3 million net impact on gross margin. Is that what you said earlier in the call?

**Bob Weiss** - The Cooper Companies, Inc. - President, CEO

Well, actually, it was larger than that. There was \$14.3 million which included \$7.9 million of currency, the \$4 million of manufacturing for the restructuring and the \$2.3 million of idle equipment, and in addition there was another \$4.1 million of write-offs. So all up \$18.4 million in aggregate.

**Jeff Johnson** - Robert W Baird - Analyst

Right, the currency impact itself was the \$7.9 million?

**Bob Weiss** - The Cooper Companies, Inc. - President, CEO

Correct.

**Jeff Johnson** - Robert W Baird - Analyst

Okay. And so with where the dollar has moved, as I'm looking at my model here it looks like that should pretty much neutralize out of the model next quarter; is that correct?

**Bob Weiss** - The Cooper Companies, Inc. - President, CEO

Well, not quite. Directionally you're right. The average pound cost floating through, and keep in mind 50% of our cost is in pounds, was about \$1.95. That is because we still have hedges in place likely to drop to about \$1.82, a reduction of about 7%, and then right now the pound is I think at around \$1.62 which is about 16% to 17% down, so that will start showing up next year.

**Jeff Johnson** - Robert W Baird - Analyst

Okay, so it sounds to me you've stepped through all of the different things that will and will not continue in gross margin, but the CVI gross margin should be a of course up in the next quarter on a sequential basis in the 53% to 54%. Is that right? And then a little bit sequentially higher throughout 2010, is that how to think about it?

**Bob Weiss** - The Cooper Companies, Inc. - President, CEO

Yes. Just keep in mind, next quarter we'll hit it with \$7.5 million for the Norfolk restructuring. So that's a bigger number.

**Jeff Johnson** - Robert W Baird - Analyst

I think everyone is willing to give you a pass on the Norfolk, that's an understandable restructuring and still kind of back to the strategy of when the [osler] deal was done, but all these other things to Peter's point on what's recurring, non-recurring, I think



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trying to move back in or out of the model. Is it fair to say that forgetting about Norfolk, 53% to 54% and then sequentially improving itself on that basis?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Yes.

**Jeff Johnson** - *Robert W Baird - Analyst*

Okay. And then you made a point on the CSI that you wouldn't necessarily shy away from deals that weren't accretive in the first 12 months. What kind of dilution would you accept in CSI in the first year?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

I think any deal we're looking at is not likely to be, it's going to be less than \$0.05 dilutive, excluding all of the acquisition accounting which gets funky if you have in process R&D and things of that nature.

**Jeff Johnson** - *Robert W Baird - Analyst*

But nothing going back, and I forget back three years ago when you had those \$0.15 dilutive deals and what have you, shouldn't be thinking about anything along those lines?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

No, but once again excluding, we did an in process R&D purchase, then that would hit and that would be called out.

**Jeff Johnson** - *Robert W Baird - Analyst*

Understood. And then because tax rate is coming down so much here for the year on the guidance, how do we think about tax rate for next year, Gene?

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

We would still be in the 15% range. Again, subject to where these write-offs close, a lot of that will be in the US from Norfolk closure. Some will be in the UK. Again, another 30% tax rate jurisdiction, but we still should be around that 15% run rate, Jeff.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

In other words, excluding the call out, we're still targeting going forward that 15% range.

**Jeff Johnson** - *Robert W Baird - Analyst*

Understood, so there are some EPS growth levers here in 2010 even though you aren't providing 2010 guidance, I'm taking that's not coming from gross margin, it won't come from tax rate, so it has to come from SG&A and the revenue line?

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**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

No, I think once again excluding Norfolk, there's going to be improvement in gross margins.

**Jeff Johnson** - *Robert W Baird - Analyst*

Okay.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

We talked about flushing through and we'll be exiting the fourth quarter in and around that 53%, 54% level you talked about and improving going forward on the exchange rate, but minimal improvement on the absorption factor if you will.

**Jeff Johnson** - *Robert W Baird - Analyst*

All right, so I'll drop here, but the take home message should not be here, Bob, that the EPS levers are going away for next year, that some of these things layer in?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

No. Yes. In other words, we're still viewing that our earnings per share is going to grow faster than the top line.

**Jeff Johnson** - *Robert W Baird - Analyst*

Fair enough. Thanks guys.

**Kim Duncan** - *The Cooper Companies, Inc. - Director IR*

Next question?

**Operator**

Alright. Thank you. Our next question is from the line of Steve Willoughby from Cleveland Research. Please proceed, sir.

**Steve Willoughby** - *Cleveland Research - Analyst*

Hi, guys. Thanks for taking the call.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Hi, Steve.



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**Steve Willoughby** - Cleveland Research - Analyst

Wondering if you could comment on your thoughts regarding the J&J/Ciba litigation, kind of where it stands in the US, what the impact you've seen over the past couple months in France and the Netherlands, and it's been a few months now, just kind of walk through what you're thinking from that impact.

**Bob Weiss** - The Cooper Companies, Inc. - President, CEO

Okay. As far as the US, it's clear that Ciba won, J&J lost, but it's also clear that that judge didn't want -- is hoping not to have to make a decision, and there's multiple lawsuits going a lot of different directions. So he basically said I hope you guys get together and talk between now and October 20th, which is his next let's-all-get-together date. He has multiple choices and the worst case scenario clearly is what Ciba was seeking, which is an injunction where Oasis comes off the market. What Ciba, or what J&J has done in the US is consistent with what they did in France which was they loaded up the pipeline for about nine months of inventory in order to not have to worry about anything that happens short term, with the idea that they will resolve whatever they have to do in that nine-month period.

As a result of that, whereas in the Netherlands we had an uptick in a very small market where Ciba opened its mouth and was basically saying we won, what Ciba didn't do in France is tell anyone, so it was the world's best secret in France. What Ciba didn't do in the US is tell anyone, so it's a secret in the US also. I do gather there was like a one-line comment in the contact lens forum, but that was about it, so it's still no one knows about it, if you can believe that. As a result of that and as a result of J&J's activity of once again pushing hard and flooding the pipeline with their deal on Oasis, it is likely that they have quite a buffer amount of inventory out there that probably will circulate in the global system for a while. It has not helped us nor has it materially hindered us at this point in time.

**Steve Willoughby** - Cleveland Research - Analyst

Okay, that's fine. And then I just had one follow-up question for Gene, and maybe I was just confused on some of the numbers jumping around there, but Gene, you were maybe talking about a \$0.10 impact from Norfolk, and I was confused, I thought it was a \$0.06 impact from Norfolk. Can you just clarify what the \$0.10 impact you were talking about before was?

**Gene Midlock** - The Cooper Companies, Inc. - CFO

Yes, \$0.06 was for Q3 and we're estimating Q4 will have a \$0.10 impact, the \$7.5 million estimated additional write-off in Q4.

**Steve Willoughby** - Cleveland Research - Analyst

Got you. Okay. That's all I had. Thanks, Gene.

**Gene Midlock** - The Cooper Companies, Inc. - CFO

You're welcome.

**Kim Duncan** - The Cooper Companies, Inc. - Director IR

Operator?

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**Operator**

Thank you. And our next question will be from the line of Jared Holz from Thomas Weisel Partners. Please proceed, sir.

**Jared Holz** - *Thomas Weisel Partners - Analyst*

Thanks a lot. Can you just talk about the earnings guidance again? It's a little bit confusing I think. You look at the adjusted number and the GAAP number. If we can just go back historically and go over the GAAP number and the adjusted number for each of the quarters so far, it looks like it was \$0.53, \$0.61 and \$0.54 adjusted, \$0.53, \$0.54 and \$0.48 GAAP. Is that the right way to look at it?

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

Well, GAAP through Q3 is \$1.55.

**Jared Holz** - *Thomas Weisel Partners - Analyst*

Okay.

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

Non-GAAP is \$1.61.

**Jared Holz** - *Thomas Weisel Partners - Analyst*

Well I'm just confused why it would be \$1.61 if you did --

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

[\$0.36] for the restructuring that we had in Q3.

**Jared Holz** - *Thomas Weisel Partners - Analyst*

Right, so \$0.54 plus \$0.61 and \$0.53 is \$1.68.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

You're adding back Jared, the IP R&D charge, and that is not added back, so when we released Q2 it was released purely as a GAAP quarter.

**Jared Holz** - *Thomas Weisel Partners - Analyst*

Okay, that makes sense. And then Gene you talked about the bonus structure of the Company where accruing for bonuses on a GAAP number, wouldn't that be based on the numbers you've put up so far the \$1.55 number and not the other number you're talking about?

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**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

At the moment, it's \$2.29 as we went through last quarter with the adjustment for the IP R&D that hit in the second quarter, that hasn't changed, so that's where the bonus triggers. We're forecasting \$2.11 to \$2.13, so we're obviously short of that by the \$0.16 attributable to Norfolk. Unless the plan gets changed there will be no bonus accrual unless we get to \$2.29. At this point, our forecasting that it's a \$0.16 hurdle and it's too early in the quarter to make that assumption.

**Jared Holz** - *Thomas Weisel Partners - Analyst*

Okay, now the \$2.11 to \$2.13, does that compare to the \$2.16 to \$2.36 that you had originally given?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

The \$2.16 to \$2.36 when we started the year was we didn't split it into GAAP, non-GAAP. We didn't anticipate a non-GAAP, so arguably the \$2.16 to \$2.36 was GAAP number and the only thing that caused it to change was a deal sheet approved by the Board which was the in process R&D that took it to the \$2.29.

**Jared Holz** - *Thomas Weisel Partners - Analyst*

Okay, so you're viewing the \$2.27 to \$2.29 guidance as comparable to -- as apples-to-apples to the \$2.16 to \$2.36?

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

Right.

**Jared Holz** - *Thomas Weisel Partners - Analyst*

Okay. And then just on the new products, what are you doing as far as anything on the silicon hydrogen daily front, is there more new products there? And then anything on the drug delivery front? I mean, R&D obviously very light, but could you start making investments there?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

As far as the daily front, we are actively looking at that and working on some projects, nothing immediate, so we aren't going to get into promising a one day silicon hydrogel in the next several years. As far as drug delivery, that's a horse of a different color from my perspective when you start saying get involved with the FDA on the drug side as opposed to the device side. Number one is the type of drug, if they're designed to deal with back of the eye issues, don't expect to see us move into that domain certainly any time in the near future. Relative to those, that deal with reactions to contact lenses or things that make wearing more palatable, we are actively looking at those arenas.

**Jared Holz** - *Thomas Weisel Partners - Analyst*

Okay, and then just lastly you're giving a five-year free cash flow projection. I'm just wondering why you wouldn't give a one year sales and earnings guidance at this point. If you have the visibility five years out on the cash front, why you wouldn't have 12 month visibility on the top and bottom line. Thanks. That's it.

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**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Yes, I think that's just the timing of when we'll move into the mode of saying here is a reasonable range. As you know doing a long range plan, things like the dollar movement can radically skew the top line very quickly as we learned in June of last year, when the dollar really started moving radically. As far as earnings per share is concerned and cash flow, you're right. We directionally know where we're headed because we have a good idea of our capital requirements over the long range planning period, but we will certainly give that color when we do the fourth quarter and conclude the year.

**Jared Holz** - *Thomas Weisel Partners - Analyst*

Okay, thanks.

**Kim Duncan** - *The Cooper Companies, Inc. - Director IR*

Next question?

**Operator**

Thank you. Our next question will be from the line of Chris Cooley from FTN Equities. Please proceed, sir.

**Chris Cooley** - *FTN Equities - Analyst*

Thank you, just two quick questions if I may, Bob. I think just in response to Jared's question that you wouldn't be contemplating a silicon hydrogel daily offering for the word you used, several years. With Ciba out with the used disposable Toric and Ciba and Vistakon to have single use spheres in silicon hydrogel at calendar year allegedly. I guess just pushing back on your gross margin assumptions as we think about 2010 and getting improved in 2011, help me understand what's going to be in that manufacturing number. Are those six lines remain idle, or do you need to retool those lines and bring it back in for that type of R&D work? And if so help us think about the costs both from a retooling standpoint but also from a working capital standpoint. And I have a quick follow-up after that. Thanks.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

It is likely that any single use silicon hydrogel lens will undoubtedly not have alcohol, which means it is most likely capable being made on that type of platform, meaning the gen II platform. And therefore to answer your question on retooling, I would not envision retooling over that, but we are several years away from that being firm. I think there's the ongoing debate over how big could a single use silicon hydrogel ever get and why would you do it, would a person be willing to pay a premium, and that debate continues. There's nothing out there that's compelling that says that needle is going to move very far if there's a premium cost involved, so far we're feeling good direction where we're going with a one day platform.

**Chris Cooley** - *FTN Equities - Analyst*

Okay. And then just as a follow-up, you alluded to revving up the M&A engine CooperSurgical once again. Could you remind us just what type of hurdle rate you're looking at internally generally when you look at these transactions? In the early days these were mom and pops that you'd strip out and basically add the product into the reps bag, but it's like increasingly you'll have to assume some infrastructure related costs. So what kind of hurdle rates are you considering, help us think about the return you're seeking on your capital there versus possibly paying down debt faster? Just help us with that.

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**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Yes, our minimum return on invested capital is a hurdle rate of 15%, and keep in mind we -- most of these are still tuck-in, so a tuck-in either into the hospital side, the IBF side or the in-office side, we already have the infrastructure in all three areas to leverage, so it's a fairly easy model if you will that we're following.

**Chris Cooley** - *FTN Equities - Analyst*

Okay, and I apologize. Just one other quicky if I may. Just looking through your P&L, on a dollar basis, interest expense increased sequentially there, yet you reduced debt and you had a lower interest rate. Was it just timing there, was there something else in that interest line? Just help me with the math there. Thanks much.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Some of it you're talking about an increase?

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

Decrease.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Are you saying sequential?

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

It's sequentially. Yes, it was tied to capitalized interest.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

When we idle the equipment, the five gen II lines and the Avaira line, as a result of that the capitalization of interest that is tagged with construction and progress stops, so it goes straight to the P&L.

**Chris Cooley** - *FTN Equities - Analyst*

Okay, thank you much, Bob.

**Operator**

Thank you. Our next question will be from the line of Mike Weinstein from JPMorgan. Please proceed.

**Mike Weinstein** - *JPMorgan - Analyst*

Wow, thank you for letting me into the call. I appreciate it. Let me start just to clarify, the \$4.1 million in equipment and inventory that you wrote off, what specifically did you write-off?



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**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

I'm sorry? Mike, you cut out. Can you ask that question one more time?

**Mike Weinstein** - *JPMorgan - Analyst*

Yes, the \$4.1 million in inventory and equipment that you wrote off, what did you write-off? What inventory did you write-off? What equipment did you write-off?

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

About \$1.9 million of manufacturing equipment in the UK.

**Mike Weinstein** - *JPMorgan - Analyst*

For what products?

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

Sorry?

**Mike Weinstein** - *JPMorgan - Analyst*

I'm sorry, I'm not asking for the break down of financials, sorry. I was asking in terms of what products did you write-off.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Well Mike, it has a lot to do with the restructuring activities where we're moving equipment around, some cases as you disassemble equipment and you plug it in someplace else you may knock a wall out, you may only end up with 80% of the equipment and 20% may get thrown away. So it really reflects some of the activities of the -- you'll recall a lot, there was a lot of 2008 activity on the restructuring of the various plants.

**Mike Weinstein** - *JPMorgan - Analyst*

I thought that was separate, but this is separate from Norfolk, right?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Correct. Yes.

**Mike Weinstein** - *JPMorgan - Analyst*

But you wrote off some inventory. What inventory did you write-off? Was it specific products, was it not? I'm trying to understand.

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**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

It was a combination, Mike. Mainly some dated inventory in Belgium and in our central warehouse. It's a normal process they go through each quarter.

**Mike Weinstein** - *JPMorgan - Analyst*

And then on the tax, I was confused. I wasn't sure exactly what you were guiding to for tax rate in the fourth quarter. It seems like in order to get to the numbers you're talking about we're coming out with a 0% tax rate.

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

It's higher than that but not a whole lot, about 1%. That will get us to the run rate for around 11% to 12% for the year.

**Mike Weinstein** - *JPMorgan - Analyst*

Okay, so 1% for the fourth quarter and then I heard your commentary about going forward. So the tax rate versus the initial plan, 11% to 12% versus the 15% ends up I think this quarter it was \$0.04, I think for the year it's like \$0.09 pick up that you have on tax rate, but you do think that that -- your assumption will be going into next year that 11% to 12% goes back to roughly 15%?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Yes, Mike. The only thing really driving the tax rate lower than the target is the implications of Norfolk being a domestic event, a US event, which has -- creates a lot of tax benefit and therefore suppresses the effective tax run rate.

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

We're taking tax deduction if you will at 39%, so it has a fairly significant impact on the rate.

**Mike Weinstein** - *JPMorgan - Analyst*

Yes, understood. If I look at your EBITDA line, and I look back over the last like I was looking just earlier, last five quarters, if I look at this quarter, your EBITDA was down 6% year-over-year, the last five quarters EBITDA is flat and the back of the envelope math we did on the fourth quarter which are giving to now on tax would suggest you're guiding to a decline on EBITDA again in the fourth quarter. I'm just trying to think a little bit about next year and when you start growing your actual operating profit, you start growing EBITDA at the Company. And getting back to the questions that some people were alluding to with earnings growth next year, third quarter EBITDA is down, fourth quarter is -- you're guiding to another down quarter for EBITDA and we roll into next year where gross margins will start off, which is below what the average will be for 2009, tax rate is going to be 11% to 12% to 15%. My question is how do you grow EBITDA next year, and then given your tax rate is going to jump up up on you, how do you grow earnings?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Well, I think part of it, I think you're doing a GAAP EBITDA, and keep in mind a lot of that \$25 million is fixed assets and those fixed assets what will happen is there will be accelerated depreciation that is charged to the P&L that will hit gross margin,



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which will lead to an artificially high depreciation, because it's being written over its remaining useful life, and therefore your EBITDA is actually going to look a lot better vis-a-vis the gross margin number you're looking at.

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**Mike Weinstein** - JPMorgan - Analyst

Starting once you get through this with Norfolk, you're saying?

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**Bob Weiss** - The Cooper Companies, Inc. - President, CEO

Yes. Well between now and the end of 2010, we're taking accelerated -- we're accelerating the life of the depreciation of all of the assets that are not making the move to the UK and to Puerto Rico -- or Puerto Rico.

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**Mike Weinstein** - JPMorgan - Analyst

Okay, understood. But that's still from an EBIT basis from an earnings basis that's going to put pressure on your earnings next year, so just we'll step back from backing out the D&A, but just thinking about basically your guidance for this year would imply a modest decline in EBIT in 2009, next year your tax rate is going up on you and you're accelerating the depreciation. And it's coming back the question of can you grow earnings and can you grow EPS next year?

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**Bob Weiss** - The Cooper Companies, Inc. - President, CEO

Yes, as we said, excluding Norfolk, we're expecting an -- emphasis excluding Norfolk, we're expecting earnings per share to grow faster than revenue next year.

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**Mike Weinstein** - JPMorgan - Analyst

Okay. And last item, in last quarter's 10Q, we learned there was a reversal for legal accrual which has helped out that second quarter by like \$0.035. Any such items this quarter we should be aware of?

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**Bob Weiss** - The Cooper Companies, Inc. - President, CEO

Not that I'm aware of, no.

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**Mike Weinstein** - JPMorgan - Analyst

Perfect. Thank you.

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**Operator**

Thank you. And our next question will be from the line of Amit Bhalla from Citibank. Please proceed.

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**Amit Bhalla** - Citibank - Analyst

Hey. Good afternoon.

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**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Hi, Amit.

**Amit Bhalla** - *Citibank - Analyst*

Hi. A question on the SG&A line and if we look at the fourth quarter, if we roll in some of the assumptions that you talked about, it looks like the SG&A to meet the guidance you have in the fourth quarter is down in absolute dollars just a tad bit, so I just want to confirm that. And give me an idea of how the SG&A in absolute dollars should look as we move into 2010.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Largely, the SG&A as we move into 2010, we will continue to target some leverage albeit modest 2010 versus 2009, and part of the reason is we were looking more to the improvement in gross margin than we are in operating expense ratios in 2010, recognizing that we pushed hard on things like T&E, salary increases and things of that nature this year. Having said that, going favorable is we did the reduction in force, which has the implication of about \$2 million a quarter pick up. Most of that starts moving, we get some of it in the third quarter and that will continue to accelerate into the fourth quarter.

For example, we shut down our Canadian operation and integrated, we now distribute product out of New York instead of Canada, that was effective June, so we have yet to see the full benefit in the quarter of that. There was some ongoing restructuring in Europe that you have yet to see all of the benefits of, so there is even some operating expense ratio leverage next year, but in the context of staying pretty lean this year, ratio wise, there will be only modest improvement.

**Amit Bhalla** - *Citibank - Analyst*

So it will be somewhere around 36% of revenues then, right?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Are you talking about SG&A? Yes.

**Amit Bhalla** - *Citibank - Analyst*

Okay, thanks, and then just a housekeeping item here. I want to understand. I'm looking at the P&L for the quarter there's a \$462,000 restructuring charge below the gross profit line. When you talk about the \$4.1 million of restructuring that led to the \$0.06, is that \$462,000 included there?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

No.

**Amit Bhalla** - *Citibank - Analyst*

Okay, so that's left in.



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**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

That's kind of left over from the reduction in force that we announced in the first quarter that reflects some activity in Europe that's still being worked on.

**Amit Bhalla** - *Citibank - Analyst*

So you're not excluding that at all for the quarter?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

No.

**Amit Bhalla** - *Citibank - Analyst*

Okay. And just lastly, just on Avaira, can you just give me an idea of where the penetration rates were for the quarter in new fits and total fits?

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

Maybe we can cover that one off-line. I'll have to actually look it up and we're probably running a little long.

**Amit Bhalla** - *Citibank - Analyst*

Okay, I'm all set, thanks.

**Operator**

Thank you. At this time we have no additional questions. I'll turn the call back to Kim Duncan for closing remarks.

**Bob Weiss** - *The Cooper Companies, Inc. - President, CEO*

I'll just say thank you for joining the call today, and our next call will be for the fourth quarter results that will be on I believe it's the 8th of December, if I have it right. So we'll look forward to reporting to you results of the entire fiscal year and the fourth quarter at that point in time. Thank you.

**Gene Midlock** - *The Cooper Companies, Inc. - CFO*

Thank you.

**Operator**

Thanks, ladies and gentlemen. This concludes today's presentation. You may now disconnect. Have a great day.

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