AMERICAN SOFTWARE INC
Form 10-K
July 14, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended April 30, 2008

OR

¨ **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 0-12456

AMERICAN SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

Georgia	**58-1098795**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
470 East Paces Ferry Road, N.E. Atlanta, Georgia	**30305**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (404) 261-4381

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
None	**None**

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Shares, $.10 Par Value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨

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

At October 31, 2007, the last business day of the registrant s most recently completed second fiscal quarter, 22,659,492 Class A Common Shares and 2,893,824 Class B Common Shares of the registrant were outstanding. The aggregate market value (based upon the closing price of Class A Common Shares as quoted on the NASDAQ National Market System at October 31, 2006) of the Class A shares held by non-affiliates on that date was approximately $204.9 million. At July 11, 2008, 22,481,556 Class A Common Shares and 2,886,856 Class B Common Shares of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE; LOCATION IN FORM 10-K

Portions of the Company s Proxy Statement for its 2008 Annual Meeting of Stockholders are incorporated by reference into Part III.

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American Software Inc.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended April 30, 2008

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PART I

ITEM 1. BUSINESS

Special Cautionary Notice Regarding Forward-Looking Statements

We believe that it is important to communicate our future expectations to our stockholders and to the public. This report contains forward-looking statements, including, in particular, statements about our goals, plans, objectives, beliefs, expectations and prospects, under the headings Item 1. Business and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in this report. You can identify these statements by forward-looking words such as anticipate, intend, plan, continue, could, grow, may, potential, predict, strive, will, seek, estimate, believe, expect, and similar expressions that convey uncertainty of future events or outcomes. Any forward-looking statements herein are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning future:

- *results of operations;*
- *liquidity, cash flow and capital expenditures;*
- *demand for and pricing of our products and services;*
- *viability and effectiveness of strategic alliances;*
- *industry conditions and market conditions;*
- *acquisition activities and the effect of completed acquisitions; and*
- *general economic conditions.*

Although we believe that the goals, plans, expectations, and prospects reflected by our forward-looking statements are reasonable in view of the information currently available to us, those statements are not guarantees of performance. There are many factors that could cause our actual results to differ materially from those anticipated by forward-looking statements made herein. These factors include but are not limited to, continuing economic uncertainty, the timing and degree of business recovery, unpredictability and the irregular pattern of future revenues, competitive pressures, delays and other risks associated with new product development, undetected software errors, and risks associated with market acceptance of our products, the challenges and risks associated with integration of acquired product line and companies, and services; as well as a number of other risk factors that could affect our future performance. Factors that could cause or contribute to such differences include, but are not limited to, those we discuss under the section captioned Risk Factors in Item 1A. of this Form 10-K as well as the cautionary statements and other factors that we discuss in other sections of this Form 10-K.

Company Overview

American Software, Inc. (American Software or the Company) was incorporated as a Georgia corporation in 1970. We develop, market and support a portfolio of software and services that deliver enterprise management and collaborative supply chain solutions to the global marketplace. Our software and services are designed to bring business value to enterprises by supporting their operations over intranets, extranets, client/servers or the Internet. References to the Company, our products, our software, our services and similar references include the

appropriate business unit actually providing the product or service.

We provide our software solutions through three major business segments, which are further broken down into a total of four major product and service groups. The three business segments are (1) Supply Chain Management (SCM), (2) Enterprise Resource Planning (ERP), and (3) Information Technology (IT) Consulting. The Supply Chain Management (SCM) segment consists of Logility, Inc., an 88% owned (as of the

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date of this filing) subsidiary which provides collaborative supply chain solutions to streamline and optimize the forecasting, production, distribution and management of products between trading partners. The ERP segment consists of (i) American Software ERP, which provides purchasing and materials management, customer order processing, financial, e-commerce, Flow Manufacturing and traditional manufacturing solutions, and (ii) New Generation Computing (NGC), which provides industry-specific business software to both retailers and manufacturers in the Apparel, Sewn Products and Furniture industries. The IT Consulting segment consists of The Proven Method, an IT staffing and consulting services firm. We also provide support for our software products, such as software enhancements, documentation, updates, customer education, consulting, systems integration services, and maintenance.

On September 30, 2004, Logility acquired certain assets and the distribution channel of privately-held Demand Management, Inc. (DMI), a St. Louis-based provider of supply chain planning systems marketed under the Demand Solutions® brand. The acquisition provided more than 800 active customers, which expanded Logility s customer base. That customer base now includes more than 1,250 companies, located in 74 countries and gives Logility what we believe is the largest installed base of supply chain planning customers among application software vendors. Logility markets and sell the *Demand Solutions* product line through Demand Management s global value-added reseller distribution network. Logility offers the *Logility Voyager Solutions* suite to its target market of upper-midsize to Fortune 1000 companies with distribution-intensive supply chains.

We derive revenues primarily from three sources: software licenses, services, and maintenance. We generally determine software license fees based on the number of modules, servers, users and/or sites licensed. Services and other revenues consist primarily of fees from software implementation, training, and consulting services. We bill primarily under time and materials arrangements and recognize revenues as we perform services. Maintenance agreements typically are for a one to three-year term, usually commencing the time of the initial product license. We generally bill maintenance fees annually in advance under agreements with terms of one to three years, and then recognize the resulting revenues ratably over the term of the maintenance agreement. Deferred revenues represent advance payments or billings for software licenses, services and maintenance billed in advance of the time we recognize the related revenues.

Our cost of revenues for licenses includes amortization of capitalized computer software development costs, salaries and benefits and value added reseller (VAR) commissions. Costs for maintenance and services revenues include the cost of personnel to conduct implementations, customer support and consulting, and other personnel-related expenses as well as agent commission expenses related to maintenance revenues generated by the indirect channel.

Our selling expenses generally include the salary and commissions we pay to our direct sales professionals, along with marketing, promotional, travel and associated costs. Our general and administrative expenses generally include the salary and benefits we pay to executive, corporate and support personnel, as well as office rent, utilities, communications expenses, and various professional fees.

Industry Background

In response to increasing global competition, companies are continually seeking new ways to enhance the productivity of their operations. Computer software applications can be an effective tool for companies to re-engineer and streamline their core business processes. ERP applications help companies reduce employee headcount and increase employee utilization through recording, consolidating, and reporting the large quantities of transactional data that are generated through daily operations. Core ERP applications include automation of financial reporting, human resources, and manufacturing functions. Included in the manufacturing function are supply chain applications that assist companies in managing relationships with external trading partners such as customers, suppliers, manufacturers, distributors, and retailers.

Companies that effectively communicate, collaborate and integrate with their trading partners within the extended enterprise or supply chain can realize significant competitive advantages in the form of lower costs,

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improved customer service, and increased revenue. Supply chain management refers to the process of managing the complex network of relationships that organizations maintain with external trading partners to forecast demand, source, manufacture and deliver goods and services to the end consumer. Supply chain management involves both the activities related to supplying products or services (source, make, move, buy, store, and deliver) as well as the sales and marketing activities that impact the demand for goods and services, such as new product introductions, promotions, pricing and forecasting.

Today, several market trends are driving organizations to expand collaboration with trading partners along the supply chain. A general shift in market power has forced manufacturers and distributors to become more responsive to retailers and consumers, which has increased the demand for improved planning capabilities. At the same time, global economic conditions and competitive pressures are forcing manufacturers to reduce costs, decrease order cycle times and improve operating efficiencies. As a result, manufacturers, distributors and retailers are increasingly under pressure to better manage the supply chain as they seek to improve manufacturing efficiency and logistics operations while maintaining flexibility and responsiveness to changing market conditions and specific customer demands. These pressures are compounded by the increasing globalization and complexity of the interactions among suppliers, manufacturers, distributors, retailers and consumers.

The Internet enhances the ability of organizations to integrate their business processes through collaborative planning to synchronize internal assets and production with external demand and supplier capabilities. Global Internet technology adoption and supply chain strategies are converging to create a competitive advantage by reducing the cost of goods sold, improving customer service, building global brands and increasing global supply chain visibility as companies move product to market quicker. Our customers goal is to cost effectively provide the right product in the right place at the right time at a competitive price.

Where appropriate, our software solutions leverage the Internet to expand the potential user community and streamline collaboration among the various trading partners in the supply chain. The supply chain planning process focuses on demand forecasting, inventory simulation, global sourcing, distribution, transportation and manufacturing planning and scheduling. Planning software is designed to increase revenues, improve forecast accuracy, optimize production scheduling, streamline global sourcing, reduce inventory costs, decrease order cycle times, reduce transportation costs, and improve customer service.

The supply chain execution function addresses procuring, manufacturing, warehousing, order fulfillment and distributing products throughout the supply chain. Within the supply chain execution function, organizations are increasing their focus on the effective management of warehouse and transportation operations and the need for integration with planning systems and other enterprise applications, in order to increase the efficient and effective fulfillment of customer orders in both the business-to-business and the business-to-consumer sectors.

In order to effectively manage and coordinate supply chain activities, companies require supply chain planning, global sourcing, supply chain execution, and supply chain event management software that provides for integrated communication, optimization and collaboration among the various constituents throughout the supply chain network. This enhanced collaboration synchronizes production plans with demand forecasts, thereby minimizing bottlenecks that lead to production delays, excess inventory and distribution network problems.

In addition, companies seek integrated planning and supply chain execution systems that further optimize the flow of products to their customers through enhanced transportation and warehouse management capabilities. Organizations are also demanding solutions that are modular and scaleable to fit the changing needs of the organization and offer rapid deployment and time-to-benefit and distribution network problems.

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Business Segments

Segment 1 Supply Chain Management Logility, Inc.

Our majority-owned subsidiary, Logility, Inc. (Logility) provides Supply Chain Management, an integrated set of supply chain planning and supply chain execution solutions. We own approximately 88% (as of the date of this filing) of the common stock of Logility and the remaining 12% is publicly held (NASDAQ: LGTY).

Logility was incorporated as a Georgia corporation in 1996. Logility provides supply chain management (SCM) solutions to streamline and optimize the market planning, management, production, and distribution of products for manufacturers, suppliers, distributors, and retailers. The supply chain refers to the complex network of business relationships with trading partners (customers, suppliers and carriers) used to forecast, source, manufacture, store, and deliver products and services to multiple locations and customers by various modes of transportation. Supply chain operations include forecasting, demand management, supply planning, sourcing, manufacturing, logistics, warehouse management, and transportation operations both within an enterprise as well as with other business-to-business collaborative processes between customers, suppliers and carriers. Logility s solutions enable enterprises to increase their market visibility to build competitive advantages and increase profitability by reducing costs, increasing revenues, improving operational efficiencies and collaborating with suppliers and customers to more effectively respond to dynamic market conditions. Additionally, Logility s solutions streamline and automate the executive Sales and Operations Planning (S&OP) process to create and assess business plans that profitably match supply with demand while synchronizing supply chain operations with strategic corporate goals.

On September 30, 2004, Logility acquired certain assets and the distribution channel of privately-held Demand Management, Inc., a St. Louis-based provider of supply chain planning systems marketed under the *Demand Solutions®* brand. The acquisition provided more than 800 active customers in the growing small and midsize business (SMB) market, which (at the time) expanded Logility s customer base to approximately 1,250 companies, located in 70 countries and gave Logility what Logility believes is the largest installed base of supply chain planning customers among application software vendors. Logility markets and sells the *Demand Solutions* product line to the SMB market through Demand Management s global value-added reseller distribution network. Logility offers the *Logility Voyager Solutions*suite to its target market of upper-midsize to Fortune 1000 companies with distribution-intensive supply chains through both direct and indirect sales channels.

Logility derives revenues primarily from three sources: software licenses, services, and maintenance. Logility generally determines software license fees based on the number of modules, servers, users and/or sites licensed. Services and other revenues consist primarily of fees from software implementation, training, and consulting services. Logility bills primarily under time and materials arrangements and recognizes revenues as it performs services. Maintenance agreements typically are for a one to three year term, usually commencing the time of the initial product license. Logility generally bills maintenance fees annually in advance under agreements with terms of one to three years, and then recognizes the resulting revenues ratably over the term of the maintenance agreement. Deferred revenues represent advance payments or billings for software licenses, services and maintenance billed in advance of the time Logility recognizes the related revenues.

Logility s cost of revenues for licenses includes amortization of capitalized computer software development costs, salaries and benefits and value-added reseller (VAR) commissions. Costs for maintenance and services revenues include the cost of personnel to conduct implementations, customer support and consulting, and other personnel-related expenses as well as agent commission expenses related to maintenance revenues generated by the indirect channel.

Logility s selling expenses generally include the salary and commissions it pays to its direct sales professionals, along with marketing, promotional, travel and associated costs. Logility s general and administrative expenses generally include the salary and benefits it pays to executive, corporate and support personnel, as well as office rent, utilities, communications expenses, and various professional fees.

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Supply Chain Industry Background

In response to increasing global competition, shorter product life cycles and reduced lead times, companies are continually seeking new ways to enhance the productivity and profitability of their operations. Companies that effectively communicate, collaborate and integrate with their trading partners within the extended enterprise or supply chain can realize significant competitive advantages in the form of lower costs, greater customer responsiveness, reduced stock-outs, more efficient sourcing, lower inventory, synchronized supply and demand, improved transportation and logistics operations, and increased revenue. Supply chain management refers to the process of managing the complex network of relationships that organizations maintain with external trading partners (customers, suppliers, manufacturers, distributors and retailers) to source, manufacture and deliver goods and services to the end consumer. Supply chain management involves both the activities related to supplying products or services (source, make, move, buy, store, and deliver) as well as the sales and marketing activities that impact the demand for goods and services, such as new product introductions, promotions, pricing and forecasting.

Today, several market trends are driving organizations to invest in collaborative supply chain initiatives. Global economic conditions and competitive pressures are forcing companies to reduce costs, decrease order cycle times and improve operating efficiencies. As a result, manufacturers, distributors and retailers are increasingly under pressure to better manage the supply chain as they seek to reduce costs, improve manufacturing efficiency and accelerate logistics operations while maintaining flexibility and responsiveness to changing market conditions and specific customer demands. These pressures are compounded by the increasing complexity and globalization of the interactions among suppliers, manufacturers, distributors, retailers and consumers.

Organizations are increasingly deploying supply chain application solutions to address their supply chain planning and supply chain execution requirements. The supply chain planning function involves the use of information to facilitate the on-time delivery of the right products to the correct location at the right time and at the lowest cost. The planning process focuses on demand forecasting, inventory simulation, global sourcing, distribution, transportation and manufacturing planning and scheduling. Planning software is designed to increase revenues, improve forecast accuracy, optimize production scheduling, reduce inventory costs, decrease order cycle times, reduce transportation costs, and improve customer service.

The supply chain execution function addresses procuring, manufacturing, warehousing, order fulfillment and distributing products throughout the supply chain. Within the supply chain execution function, organizations are increasing their focus on the effective management of warehouse and transportation operations and the need for integration with planning and other enterprise applications, in order to increase the efficient and effective fulfillment of customer orders in both the business-to-business and the business-to-consumer sectors.

In a recent Aberdeen Group report, *Supply Chain Innovator s Technology Footprint 2008*, the technology analyst firm found best-in-class supply chain performance contributes to compelling operational results. Best-in-class companies were distinguished from industry average and laggard organizations by key metrics as indicators of overall supply chain process competency. The March 2008 report highlights three best-in-class metrics:

- Finished goods inventory turns per year: 28
- Total logistics costs as a percentage of sales: 5%
- Perfect order percentage (percent of orders shipped complete and on-time to the customer s requested delivery date): 96%

Additional survey results showed that best-in-class companies are:

- 70% more likely than all other companies to have a closed-loop integration of supply chain planning and execution;

Two-times more likely to have end-to-end supply chain data and process visibility (enabled by supply chain software solutions) than all others; and

50% more likely than all others to have implemented cross functional metrics across their enterprise.

In order to effectively manage and coordinate supply chain activities, companies require demand planning, supply chain planning, global sourcing, supply chain execution, and performance management software that provides for integrated communication, optimization and collaboration among the various constituents throughout the supply chain network. This enhanced collaboration synchronizes production and distribution plans with demand forecasts, thereby minimizing bottlenecks that lead to production delays, excess inventory and distribution network problems.

We believe that traditional enterprise resource planning (ERP) systems do not provide the visibility, depth, flexibility or synchronization required to effectively meet the demands of today s intensely competitive global environment. Organizations are demanding supply chain solutions that are modular and scaleable to extend ERP functionality, fit the dynamic needs of their businesses, deploy quickly and deliver rapid time-to-benefit.

Additionally, market drivers for more sophisticated software are finding their way downstream. Issues that the multi-billion dollar companies faced ten years ago are impacting even the low-end of the SMB market. Increasingly, Logility s customers have to manage offshore manufacturing requirements, which often extend time-to-market as well as the unique challenges associated with selling to mass merchants. With new, increasingly complex data management needs to monitor global supply lines and deal with the retailers demand for accurate forecast and supply visibility, the SMB market is outgrowing spreadsheets for demand planning and turning to automated supply and demand, inventory and replenishment management software.

Logility Products and Services

Leveraging its supply chain management expertise, Logility has been an innovator in developing and deploying supply chain solutions, with our first internet-based collaborative planning software application implemented in 1996. Logility continues to invest and expand its innovative solutions, which support the Collaborative Planning, Forecasting and Replenishment (CPFR®) standards defined by the Voluntary Interindustry Commerce Standards Association (VICS). Logility s systems also support other emerging collaborative supply chain standards for transportation and distribution center management such as collaborative transportation management (CTM), and radio frequency identification (RFID), a technology that uses radio waves to uniquely identify items as well as packaging such as cartons, containers and pallets.

Logility s experience indicates that distribution-intensive industries face considerable competitive pressure, which is intensified by the high cost of inventory and distribution investments, dynamically changing consumer needs, and variability in overall supply chain performance. These companies need solutions that are capable of delivering significant financial benefits by quickly solving problems that arise in sourcing, manufacturing and distribution operations. Logility solutions are capable of helping these companies collaborate with their trading partners to improve customer service and optimize their sourcing, manufacturing, inventory and distribution networks.

With approximately 1,250 customers in 74 countries, Logility is a leading provider of collaborative supply chain solutions that help small, medium, and large as well as Fortune 1000 companies realize substantial bottom-line results. Logility provides two product suites, *Logility Voyager Solutions* and *Demand Solutions,* marketed, sold and distributed through both direct and indirect sales channels. The *Logility Voyager Solutions* suite of products features performance monitoring capabilities in a single internet-based framework and provides supply chain visibility; demand, inventory and replenishment planning; supply and global sourcing optimization; manufacturing planning and scheduling; transportation planning and execution; and warehouse management. The *Demand Solutions* product suite provides forecasting, demand planning, replenishment and point-of-sale analysis for maximizing profits for small to midsize manufacturing, distribution and retail operations.

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Logility has licensed one or more modules of *Logility Voyager Solutions* or *Demand Solutions* to companies worldwide, including A.O. Smith, Alberto Culver, Armour Eckrich, Avery Dennison Corporation, Berry Plastics Corporation, BP (British Petroleum), Continental Mills, Cooper Industries, Electrolux, Farnell InOne, Fastenal Company, Hyundai Motor America, ICI Paints, Jarden Corporation, Leviton Manufacturing Company, L Oreal, Malt-O-Meal Company, McCain Foods, Pernod-Ricard, Pfizer, Porsche, Remington Products Company, Rexnord, Shaw Industries, Sigma Aldrich, Standard Motor Products, Under Armour Performance Apparel, Verizon Wireless, Wacoal, Warnaco, and VF Corporation. Logility sells products and services through direct and indirect channels. Logility derived approximately 17% of its revenues in the fiscal year ended April 30, 2008 from international sales.

Product Features: Logility Voyager Solutions

Logility Voyager Solutions is an integrated software suite that provides advanced supply chain management including collaborative planning, strategic network design, optimized supply sourcing, production management, warehouse management, and collaborative logistics capabilities that are designed to increase revenues, reduce inventory costs, improve forecast accuracy, decrease order cycle times, manage global sourcing initiatives, optimize production scheduling, streamline logistics operations, reduce transportation costs and improve customer service. *Logility Voyager Solutions* incorporate performance management analytics to drive decision support for critical processes such as demand management, inventory and supply optimization, manufacturing planning and scheduling, transportation planning and management and sales and operations planning (S&OP).

The *Logility Voyager Solutions* software suite is modular and scaleable to meet the management requirements of global organizations involving tens of thousands of products with a complex manufacturing or distribution network. In addition, the *Voyager Solutions* suite interfaces with a broad range of existing enterprise applications deployed on a variety of Internet and client/server operating environments and platforms.

Logility s customers can implement these modules individually, as well as in combinations or as a full solution suite. *Logility Voyager Solutions* support multiple communications protocols and is designed to operate with industry-standard open technologies, including leading web-based and client/server environments, such as Microsoft Windows, UNIX, and iSeries (AS/400) on Oracle, Microsoft SQL Server and DB2 databases. The following summarizes key features of the Logility Voyager Solutions product suite:

LOGILITY VOYAGER SOLUTIONS FOR COLLABORATIVE SUPPLY CHAIN MANAGEMENT

These applications allow companies to plan, manage, optimize and measure their supply chain operations and strategic trading partner relationships for direct material procurement, production, logistics and customer order fulfillment. *Logility Voyager Solutions* provide a performance-based architecture that allows companies to manage supply chain processes on an exception basis. Companies can proactively monitor, alert, measure and resolve critical supply chain events both within their own companies and throughout the extended value chain via the Internet.

SUPPLY CHAIN COLLABORATION

Streamlining Sales and Operations Planning (S&OP) and enhancing strategic trading partner relationships, *Logility Voyager Solutions* allows companies to accelerate and manage demand plans, direct material procurement, sourcing, production and fulfillment using the power of the Internet.

Voyager Sales and Operations Planning enables companies to streamline and accelerate synchronizing supply and demand across global operations. With Voyager Sales and Operations Planning, companies can more easily track key performance indicators, measure and compare multiple business plans, optimize sale plans and automate data gathering and reporting.

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Logility Voyager Collaborate enables companies to communicate easily across their organizations and share real-time supply chain information with external trading partners. With Voyager Collaborate, suppliers, manufacturers, distributors and retailers can use the power of collaborative business processes such as Sales and Operations Planning and built-in standards for Collaborative Planning, Forecasting and Replenishment (CPFR®) to advance enterprise wide collaboration enabled via the Internet.

Logility Voyager Fulfill provides a private transportation exchange that extends collaboration to carriers, customers and suppliers. Customers and suppliers can see the status of their orders and shipments in transit. Carriers can easily accept or reject loads offered, bid on loads, provide up-to-the-minute shipment information, and view the payment status of prior shipments.

DEMAND CHAIN PLANNING

Logility Voyager Solutions provide the visibility to significantly improve forecasting accuracy by creating comprehensive overviews of market demand, new product introductions, promotions and inventory policies. As a result, enterprises can build plans that are more closely attuned to the market.

Logility Voyager Demand Planning helps reconcile differences between high-level business planning and low-level product forecasting. Aligning inventory with customer demand, this solution makes it easier to boost service levels, shorten cycle times and reduce inventory obsolescence. Logility provides control to model each phase in a product s sunrise-to-sunset lifecycle including introduction, maturity, replacement, substitution and retirement so that the right products are available at the point of customer demand. *Voyager Demand Planning* integrates the marketing department in real time into forecasting, distribution and logistics planning to calculate the impact of promotional plans and events.

Logility Voyager Inventory Planning allows enterprises to effectively measure the tradeoff of inventory investment and desired customer service levels. This solution dynamically sets time-phased inventory targets based on specific safety stock and order quantity rules.

SUPPLY CHAIN PLANNING

Logility Voyager Solutions optimize material, inventory, production and distribution assets by synchronizing supply and demand. Simultaneously, multiple supply chain planning models generate plans based on constraints as well as various sourcing, production and distribution options.

Voyager Supply Planning optimizes complex sourcing and production decisions to balance supply, manufacturing and distribution constraints based on corporate goals for maximizing profit or minimizing costs.

Voyager Replenishment Planning provides visibility of future customer demands, corresponding product and material requirements, and the actions suppliers must take to satisfy those demands.

Voyager Manufacturing Planning helps create valid production plans for single- or multi-site capacity constrained environments, providing lower costs, fewer setups and increased product availability.

SUPPLY CHAIN EXECUTION

Logility Voyager Solutions provide industry-leading capabilities for optimizing both warehouse and transportation operations. These solutions systematically balance logistics strategies, customer service policies, carrier effectiveness, inventory management, and radio frequency identification (RFID) solutions to boost perfect orders and spur improvements that favorably impact profitability.

Voyager WarehousePRO® provides shipping and inventory accuracy by optimizing the flow of materials and information through distribution centers. *WarehousePRO* helps cut operating costs and improve productivity,

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increase order fill rates, optimize space utilization and improve customer service. This solution is highly flexible and quickly adapts to changing business requirements. *WarehousePRO* features an extensive workflow library incorporating industry-specific best-practice templates and supports RFID technology for effective warehousing techniques. With built-in standard interfaces to major radio frequency data collection systems, this software delivers more accurate inventory accountability and improved warehouse efficiency for a paperless warehouse environment.

Voyager Transportation Planning and Management provides a performance-driven, multi-modal solution for dramatic savings of time, effort and money. It enables automated shipment planning, shipment execution and freight accounting. User workflows, driven by exceptions, increase visibility and accelerate more proactive communications among trading partners. The Optimization Engine evaluates logical alternatives for grouping and shipping orders considering business rules, consolidation parameters, carriers, rates, and date/time requirements.

Product Features: Demand Solutions

Demand Solutions proven, sophisticated supply chain software provides a smooth transition from spreadsheet management to robust reporting and tracking. It s simple to install and easy to use.

The *Demand Solutions* application suite makes it easier to predict future demand and make informed decisions to optimize inventory turns, customer service levels and profitability. *Demand Solutions* is a complete time-phased, multi-tiered planning and replenishment system and a proven platform for Vendor Managed Inventory. *Demand Solutions* helps manufacturers, wholesalers and distributors exchange information for inventory, proactively manage demand rather than operate in reactive mode, and increase profitability.

DS Forecast Management provides a powerful yet easy to use demand planning solution that fits virtually any industry and deploys quickly. The system offers significant flexibility and allows the user to select the forecasting formula which best addresses each item s demand pattern to predict an accurate forecast of future demand.

DS Requirements Planning incorporates collaborative planning capabilities to streamline supply activities from the production line through delivery. With instant analysis of the projected demand for unlimited items against current inventory, *DS Requirements Planning* recommends the ideal inventory level for each ship-to location, providing valuable visibility up and down the supply chain.

DS Collaboration offers a certified CPFR compliant collaborative planning solution that streamlines communications between a company and its customers and suppliers. This solution minimizes the barriers to entry for smaller trading partners, who need only a Web browser, and extends the value available through the entire *Demand Solutions* product line. Collaboration results in greater demand visibility and closer synchronization of production and inventory investments.

DS Sales & Operations Planning automates and continually analyzes the annual business planning process. There are two annual business plans available for each of the sections of data (bookings, sales, production, inventory, backlog and shipments): the Annual Plan and the Flexible Plan.

DS Rough Cut dramatically increases the accuracy of available-to-promise (ATP) ratios and can reduce the cost of manual processes and calculations. It provides visibility of resource utilization and allows users to level the plan instantly. *DS Rough Cut* s powerful what if scenarios help ensure that businesses can meet demand as promised.

DS View significantly extends the value of *Demand Solutions*, empowering users to aggregate, rotate, filter, sort and otherwise manipulate large volumes of data into meaningful information. *DS View* can gather data from any field within Demand Solutions, as well as external sources. Enterprises can also share output with colleagues, customers and vendors over networks, captive and secure intranets and the Internet.

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DS Retail Planning enables manufacturers, distributors and retailers to collaboratively produce, ship and replenish product based on point-of-sale data. Highly accurate and easy to use, *Demand Solutions Stores* can track thousands of SKUs in more than a hundred locations, resulting in optimized store-level replenishment, reduced out-of-stocks, greater inventory turns, elevated customer service levels and increased profits. *DS Retail Planning* is designed around the philosophy of continuous replenishment, enabling actual demand to be consolidated from each point-of-sale (POS) location and routed to suppliers. *D*S Retail Planning leverages detailed analysis and strategic assortment planning for a store or group of stores. The result is a collaborative, highly responsive value chain from manufacturer or distributor to retail.

Segment 2 Enterprise Resource Planning

American Software ERP

Our enterprise solutions are comprehensive global solutions that link critical functions throughout an enterprise. All of our enterprise solutions support e-business functions.

The *e-Intelliprise* solution is a web-based ERP system that a customer can run over the Internet, intranet or extranet utilizing the IBM iSeries servers. This allows functions within the ERP system to be easily deployed over the Internet using a dynamic role-based web page capability. Users no longer require separate implementations to achieve differing e-business views over the Internet. This solution supports e-businesses and traditional businesses with full front-to-back office integration, which is critical to successful fulfillment and seamless processing and reporting throughout the enterprise. The *e-intelliprise* solution is a global system, capable of operating in multiple languages and logistical organizations. We build this system around a flexible enterprise architecture that enables centralized management of enterprise wide processes while allowing delegation of other business process decisions to other levels of the organization.

Flow Manufacturing is a software solution that supports pull-based manufacturing. We believe that Flow Manufacturing, also referred to as Lean or Agile Manufacturing, will become a key competitive advantage to companies as e-Business increases consumer expectations for faster deliveries, reduced pricing and more highly customized products.

Our *e-applications* are e-business solutions that can web-enable specific business functions through integration with existing ERP or legacy systems. Currently, *e-applications* are available for the following applications: e-*procurement, e-store, e-expenses, e-forms, e-payables, e-receivables, Purchase Order Tracking and Vendor Collaboration, Requisition Tracking, Shipment Tracking, e-process management and e-connect*, a seamless, XML-enabled data exchange. We believe that these products represent a cost-effective solution for customers with an e-business requirement.

We also market a tool to enable our customers to enter inventory and production transactions using barcode data collection devices. This product is known as *RF Direct Connect*, and ensures accurate entry of such information as shipping, transfer, inventory movement, receiving, and production data.

We have integrated a document management solution to enable the capture, storage and retrieval of documents from multiple sources using preset business rules. This product is known as *AsIrecall,* and the solution provides an integrated method of document capture and retrieval to aid in solving business issues, increasing operational efficiency, improving customer service and enabling the reduction of administrative costs.

Our product line consists of software and services that operate on three strategic computer platforms: (1) IBM System z Mainframe or compatible, (2) IBM System i (AS/400), and (3) Intel-based servers and clients that operate Windows 2000, 2003, XP and Vista. We have written our products in various standard programming languages used for business application software, including ANSI COBOL, Micro Focus COBOL, C, C++, Visual Basic, JAVA, JAVA2 and other programming languages. Many have both on-line and batch capabilities.

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We have web-enabled our legacy System z and System i applications using Host Access Transformation Server (an IBM WebSphere application). This product enables our existing System z and System i customers to access their back office systems from any Windows-based computer with Internet access using only a web browser. The graphical user interface reduces the learning curve for new users and rejuvenates the look and feel of the systems. We market this product under the name *Host- Access.*

The following is a summary of our main ERP software solutions outside of our New Generation Computing, Inc. subsidiary:

Manufacturing Modules

Companies may use *e-intelliprise* with Traditional MRP II Manufacturing and/or Flow Manufacturing modules. The modules listed below are the solution components within Traditional Manufacturing:

- Master Scheduling
- Material Requirements Planning
- Bill of Materials
- Capacity Planning
- Production Order Status
- Route and Work Center Maintenance
- Shop Floor Control

Logistics Modules

Our logistics solution consists of an integrated system of modules that provide information about the status of purchasing activities, customer orders, inventory position and internal inventory requisition requirements. These modules perform primarily the following functions:

Inventory Asset Management

- Inventory Asset Control
- Lot Control
- Receipt and Shipment Management

Serialized Inventory Processing

Replenishment Processing

Requisition Management

Inspection

Procurement

e-Procurement

Traditional Purchasing

Requisition Processing

Blanket Purchasing

Purchase Order and Purchase Requisition Approval Routing

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Customer Order Management

- e-Store
- Order Management
- Pricing and Promotions Management
- Shipping Management
- Billing Management
- Credit Control Processing
- Customer Management

Financial Modules

Our comprehensive financial solutions provide functions such as financial reporting, budgeting, asset management, cash management, credit management and receivables management. These systems assist in resolving customers specific financial control issues faster and more effectively. We designed the *e-intelliprise* financial module for global companies and in order to allow the use and reporting of multiple currencies, including the European Monetary Unit (EMU). The specific applications available are:

General Ledger

- Chart of Accounts Processing
- Budgeting
- Journal Entry Processing

Accounts Payable

- e-Payables
- Voucher Entry Processing

Payment Processing

Treasury

Bank Reconciliation

Cash Management

Netting and Write-Offs

Accounts Receivable

e-Receivables

Collections Management

Credit Management

Cash Receipts Management

Financial Notices and Dunning Management

Activity Manager

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Key benefits of Enterprise Solutions include the following:

American Software is a single-source solution provider for the Internet age. Our comprehensive e-business solution suite supports the e-business requirements of most enterprises throughout their adoption of Internet technology. *e-intelliprise* is a comprehensive solution to support the operations of enterprises and provide advanced decision support tools.

Front-to-Back Office Integration is critical to the success of an enterprise. e-intelliprise provides complete integration of e-business transactions to the entire ERP system. This supports comprehensive and consistent flow of information throughout the enterprise and supply chain. Fulfillment issues that have been experienced by some e-tailers can be resolved through front-to-back office integration. *e-intelliprise* is a single solution for support of traditional and e-business activities.

Rules-based architecture allows different views based upon user role. e-intelliprise is very flexible due to its rules-based architecture. This allows the ERP data to be presented based upon the profile of the user.

Deployable over the Internet, intranet and extranet. Companies can deploy *e-intelliprise* over multiple channels without a separate implementation. *e-intelliprise* allows users to create multiple secure role-based views of the system. We believe this system flexibility provides greater business value by extending the information within the ERP securely across to employees, customers and trading partners, as needed.

Full Global Capabilities. e-intelliprise provides full global support of the entire enterprise with multiple languages, currencies and books. This allows users to view information in their native language and currency.

Modular Solution. Companies may purchase one or more modules, which they can integrate with other enterprise software. They may also purchase an integrated product suite to handle increased requirements for enterprise management, processing and transaction volume.

Extensive Functionality. Our enterprise solutions combine traditional and e-business functionality into a comprehensive yet flexible system. *e-intelliprise* offers full operational and decision support functionality for global enterprises.

Rapid Deployment. Our products utilize a modular design and a flexible rules-based architecture, thereby streamlining implementation and reducing project time and expenses. We have announced a 120-day implementation program that is appropriate for many customers.

Flow Manufacturing Modules

Our Flow Manufacturing solution is designed to operate on a stand-alone basis, or with the e-intelliprise ERP suite or with an ERP suite provided by another vendor. Customers can use Flow Manufacturing in conjunction with traditional manufacturing or they can use it as the sole manufacturing solution throughout an enterprise. Flow Manufacturing is a comprehensive solution designed expressly for companies considering the adoption of this approach to manufacturing. The solution is comprised of the following modules:

- Line Design
- Kanban Management
- Demand Smoothing
- Product Costing

Engineering Change Control

Method Sheet Management (Work Instructions)

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Flow Manufacturing Benefits:

e-Business Support. To meet e-business demands, we anticipate that many manufacturers will replace traditional mass production methods with Flow Manufacturing techniques. The benefits of Flow Manufacturing, such as reduced cost and reduced lead-time, offer a more appropriate structure for responding to e-business demands. With Flow Manufacturing, manufacturers build the product in response to customer demand.

Scaleable Implementation. We can scale Flow Manufacturing to handle a single production line up to the requirements of a complex multi-plant, multi-source manufacturing environment. The solution can also co-exist with traditional manufacturing so that manufacturers can use Flow Manufacturing for some portions of production and assembly while maintaining traditional manufacturing for others.

Integration. We can license Flow Manufacturing in conjunction with our e-intelliprise ERP suite, or we can license it to companies that are using the enterprise solutions of other vendors. Industry-standard data formats, interfaces and protocols facilitate this integration.

Rapid Deployment. Flow Manufacturing has a modular design, which we believe streamlines implementation and allows deployment in a relatively short time frame. The comprehensive functionality of each module generally permits customers to implement the solutions with nominal modifications. In addition, Flow Manufacturing s Windows-based interface and other tools and techniques reduces training requirements and implementation tasks.

e-APPLICATIONS

e-Applications streamline business processes and create competitive advantage that helps businesses leverage the full value of their existing ERP and legacy systems. Our e-applications provide added value by extending the reach of the ERP to trading partners, establishing the groundwork for collaborative trading.

e-Procurement. This self-service online procurement solution reduces the time, cost and effort associated with buy side activities. This e-application can also help an enterprise become more efficient and productive by streamlining the procurement process and eliminating purchasing bottlenecks. This solution not only eliminates purchasing delays but it positions enterprises to respond faster to change and to capitalize on e-business opportunities.

e-Store. This e-business storefront solution offers a cost-effective way to expand an enterprise s market by providing around-the-clock access to web-based ordering. e-Store acquires and retains customers , employees and distributors access to catalog information, pricing, product availability and order status. The solution can give users authority to create or change customer orders, or may be restricted to inquiries.

e-Expenses. This paperless workflow solution enables employees to submit expense reports via the Internet, document receipts via fax and merge receipts and electronic documents. By giving employees access into expense status at all stages of the processing cycle (routing, approval and payment) and by supplying company management with a system wide look into expense behavior, the e-Expenses solution offers a new level of control over and accountability for the cost of the function.

e-Forms. e-Forms provides the ability to route specific forms, such as purchase requisitions, purchase orders, invoices, and acknowledgments via e-mail or fax. We believe that e-forms offers an effective, easy-to-use communication channel to external trading partners. e-Forms provides a secure, self-service link between non-host users and purchasing, requisitioning, accounts payable, accounts receivable, customer order processing and manufacturing systems. Using e-mail, fax and XML/FTP gateways, this solution s workflow engine routes documents from host applications. The review, approval and update loop uses HTML formatting and receives instructions interactively.

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e-Payables. This module streamlines administrative processes regarding purchases online not using purchase orders, enabling users to cost-effectively transacty:inherit;font-size:10pt;">5.3

5.2

Additional paid-in capital
1,528.8

1,526.7

Accumulated other comprehensive loss
(273.0
)

(375.3
)
Retained earnings
2,310.3

2,434.2

Treasury stock at cost: 3.6 shares at January 31, 2018 and 3.6 shares at October 31, 2017
(415.1
)

(415.1
)
Noncontrolling interests
0.1

0.1

Stockholders’ equity
3,156.4

3,175.8

$
6,268.6

$
4,858.7

See accompanying notes.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

	2018	2017
Cash flows from operating activities:		
Net (loss) income	$(122.5)	$75.8
Depreciation and amortization	66.6	47.8
Decrease in operating capital	(177.0)	(30.3)
Increase in long-term tax payable	176.4	—
Other non-cash items	82.7	15.1
Net cash provided by operating activities	26.2	108.4
Cash flows from investing activities:		
Purchases of property, plant and equipment	(51.4)	(28.7)
Acquisitions of assets and businesses, net of cash acquired, and other	(1,193.2)	(173.4)
Net cash used in investing activities	(1,244.6)	(202.1)
Cash flows from financing activities:		
Proceeds from long-term debt	1,672.8	266.1
Repayments of long-term debt	(445.8)	(169.1)
Net proceeds (repayments) from short-term debt	4.8	(5.9)
Net payments related to share-based compensation awards	(10.5)	(8.1)
Debt acquisition costs	(3.9)	—
Proceeds from construction allowance	—	0.5
Net cash provided by financing activities	1,217.4	83.5
Effect of exchange rate changes on cash and cash equivalents	3.9	0.5
Net increase (decrease) in cash and cash equivalents	2.9	(9.7)
Cash and cash equivalents - beginning of period	88.8	100.8
Cash and cash equivalents - end of period	$91.7	$91.1

See accompanying notes.

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

Note 1. General

The accompanying unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited Consolidated Financial Statements of the Cooper Companies, Inc and its subsidiaries (the Company) and related notes as contained in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2017. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair statement of the results for the periods presented. Readers should not assume that the results reported here either indicate or guarantee future performance.
Accounting Pronouncements Issued Not Yet Adopted

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU requires an entity to disaggregate the service cost component from the other components of net benefit cost. The service cost component is presented in the same line items as other compensation costs arising from services rendered by the pertinent employees during the period and the other components of net benefit costs are presented separately as other income/expense below income from operations. ASU 2017-07 is effective for the Company in our fiscal 2019 and is not expected to have a significant impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 provides guidance on the classification and presentation of changes in restricted cash and cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Company in fiscal 2019 and is not expected to have a significant impact on the Company's Consolidated Statements of Cash Flows.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which requires entities to recognize the income tax consequences on an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU changes the timing of the recognition of the income tax consequences of non-inventory transfers which under current guidance defers the income tax consequences until the asset is sold to an outside party or otherwise recognized. The guidance for the amendments of ASU 2016-16 requires companies to apply a modified retrospective approach with a cumulative catch-up adjustment to opening retained earnings in the period of adoption. We are currently evaluating the impact of ASU 2016-16 which is effective for the Company in our fiscal year and interim periods beginning on November 1, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. We are currently evaluating the impact of ASU 2016-02, which is effective for the Company in our fiscal year and interim periods beginning on November 1, 2019.

In May 2014, the FASB issued 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.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES
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(Unaudited)

We have been monitoring the activity of the FASB and the Transition Resource Group as it relates to specific industry interpretive guidance and further overall interpretations and clarifications. In fiscal year 2017, we began our plan on adoption of ASU 2014-09. Our plan entails activities such as reviewing significant revenue streams (and related costs) and representative contracts to determine the potential changes to existing accounting policies, completion of an accounting guidance gap analysis, and identifying and addressing the impact that ASU 2014-09 will have on business processes, systems and internal controls to support the recognition and disclosure requirements. We are currently in the process of completing our accounting gap analysis.
We are currently evaluating the full impact of ASU 2014-09 and related amendments on our consolidated financial statements and related disclosures. Currently, we have not identified any material expected changes due to the adoption of ASU 2014-09 on the Company’s consolidated financial statements, and are in the process of quantifying the impact. We plan to adopt ASU 2014-09, in our fiscal year and interim periods beginning on November 1, 2018 and we currently expect to apply the modified retrospective transition method. This would result in an adjustment to retained earnings for the cumulative effect, if any, of applying the ASU 2014-09 to contracts in process as of the adoption date. Under this method, the Company would not restate the prior consolidated financial statements presented. However, the Company would include additional disclosures of the amount by which each financial statement line item is affected in the current reporting period during our fiscal year 2019, as compared to the guidance that was in effect before the change, and an explanation of the reasons for significant changes, if any.
Accounting Pronouncements Recently Adopted

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. Under current guidance, an entity subsequently measures inventory at the lower of cost or market, with market defined as replacement cost, net realizable value (NRV), or NRV less a normal profit margin. An entity uses current replacement cost provided that it is not above NRV (i.e., the ceiling) or below NRV less an approximately normal profit margin (i.e., the floor). ASU 2015-11 eliminates this analysis and requires entities to measure inventory “at the lower of cost and NRV.” ASU 2015-11 is effective prospectively for annual periods beginning after December 15, 2016, and interim periods therein. The Company adopted this guidance on November 1, 2017, and it did not have a material impact on the Company's reported financial results.
Note 2. Acquisitions
The following is a summary of the allocation of the total purchase consideration for acquisitions that the Company completed during fiscal 2018 and 2017:

(In millions)	January 31, 2018	October 31, 2017
Technology	—	71.7
Customer Relationships	18.5	43.1
Trademarks	24.0	7.1
Composite Intangible Asset	1,061.9	—
Other	4.2	—
Total identifiable intangible assets	1,108.6	121.9
Goodwill	36.2	123.1
Net tangible assets (liabilities)	50.0	(4.8)
Total purchase price	1,194.8	240.2

All the acquisitions were paid in cash and funded by our debt borrowings. We recorded the tangible and intangible assets acquired and liabilities assumed at their estimated and relative fair values as of the applicable date of acquisition.

We believe these acquisitions strengthen CooperSurgical's and CooperVision's businesses through the addition of new or complementary products and services.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES
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Fiscal Year 2018

PARAGARD
On November 1, 2017, CooperSurgical acquired the assets of the PARAGARD Intrauterine Device (IUD) business (PARAGARD) from Teva Pharmaceuticals Industries Limited (Teva) for $1.1 billion.

This acquisition broadens and strengthens CooperSurgical's current product portfolio. PARAGARD® is the only hormone-free, long lasting, reversible contraceptive approved by the United States Food and Drug Administration (FDA) available in the United States.

The Company has accounted for the acquisition of PARAGARD as a purchase of assets in accordance with FASB Accounting Standards Codification (ASC) Topic 805, Business Combinations, and ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, whereby the Company recognized assets acquired based on their estimated fair values on the acquisition date. Due to the required screening test, the acquisition does not meet the definition of a business as substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset. The Company retained independent appraisers to advise management in the determination of the relative fair value of the various assets acquired and liabilities assumed. The values assigned in these financial statements represent management's best estimate of relative fair values as of the acquisition date.

The following table summarizes the relative fair values of net assets acquired and liabilities assumed using the cost accumulation and allocation model:

(In millions)	Relative Fair Value
Composite Intangible asset [(1)]	1,061.9
Assembled workforce Intangible asset [(2)]	1.2
Property, plant and equipment	2.0
Inventory [(3)]	47.3
Other assets	9.4
Total Assets acquired	1,121.8
Less: Liabilities assumed	16.4
Total Purchase Price	1,105.4

The Company proportionally allocated the acquisition costs to the net assets acquired. The acquisition-related costs included advisory, legal, valuation and other professional fees.

[(1)] Composite Intangible asset consists of technology, trade name, New Drug Application (NDA) approval and physician relationships, which have been valued as a single composite intangible asset as they are inextricably linked. The composite asset was identified as the primary asset acquired, was valued using the Multi-Period Excess Earnings Method and will be amortized over 15 years.
[(2)] An assembled workforce was recognized as a separate acquired intangible asset, given the purchase of assets and will be amortized over 5 years.
[(3)] Inventory relative fair value includes step up of $45.4 million.

As PARAGARD was considered an asset purchase as opposed to a business acquisition in accordance with the guidance under FASB ASC 805, Business Combinations, and ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, the company has not included proforma financial statements which are applicable for a business acquisition.

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Other Acquisitions

On December 1, 2017, CooperVision acquired Paragon Vision Sciences, a leading provider of orthokeratology (ortho-k) specialty contact lenses and oxygen permeable rigid contact lens materials. Ortho-k contact lenses are overnight lenses which enable corneal topography correction for myopia (nearsightedness) patients. The purchase price allocation is preliminary and we are in the process of finalizing information related to assets, liabilities and the corresponding impact on goodwill.

On January 4, 2018, CooperVision acquired Blueyes, a long-standing distribution partner, with a leading position in the distribution of contact lenses to the Optical and Pharmacy sector in Israel. The purchase price allocation is preliminary and we are in the process of finalizing information related to assets, liabilities and the corresponding impact on goodwill.

The pro forma results of operations of these acquisitions have not been presented because the effects of the business combinations described above, individually and in the aggregate, were not material to our consolidated results of operations.

Fiscal Year 2017

On August 3, 2017, CooperVision completed the acquisition of Procornea Holding B.V. (Procornea). Procornea is a Netherlands based manufacturer and distributor of specialty contact lenses, mainly orthokeratology (ortho-k) which expands CooperVision's access to myopia (nearsightedness) management markets with new products. The purchase price allocation is preliminary and we are in the process of finalizing information related to assets, liabilities and the corresponding impact on goodwill.

On June 30, 2017, CooperVision completed the acquisition of Grand Vista LLC, a long-standing distribution partner in Russia. Grand Vista LLC is engaged in contact lens and contact lens solutions and lens care product distribution business in Russia. The purchase price allocation is preliminary and we are in the process of finalizing information related to assets, liabilities and the corresponding impact on goodwill.

On November 4, 2016, CooperSurgical completed the acquisition of Wallace, the in vitro fertilization (IVF) segment of Smiths Medical International, Ltd., a division of Smiths Group plc. Wallace manufactures a range of IVF and ob/gyn products. We have completed the purchase price allocation for this acquisition.

Note 3. Inventories

(In millions)	January 31, 2018	October 31, 2017
Raw materials	$ 114.2	$ 107.0
Work-in-process	15.6	13.3
Finished goods	376.5	333.8
	$ 506.3	$ 454.1

Inventories are stated at the lower of cost and net realizable value. Cost is computed using standard cost that approximates actual cost, on a first-in, first-out basis.

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Note 4. Intangible Assets

Goodwill

(In millions)	CooperVision	CooperSurgical	Total
Balance at October 31, 2016	$ 1,646.4	$ 518.3	$2,164.7
Net additions during the year ended October 31, 2017	28.6	94.4	123.0
Translation	60.7	6.4	67.1
Balance at October 31, 2017	1,735.7	619.1	2,354.8
Net additions during the three months ended January 31, 2018	36.4	—	36.4
Translation	55.2	8.0	63.2
Balance at January 31, 2018	$ 1,827.3	$ 627.1	$2,454.4

We performed our annual impairment assessment in our third quarter of fiscal 2017 and 2016, and our analysis indicated that we had no impairment of goodwill. We evaluate goodwill for impairment annually during the fiscal third quarter and when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. We account for goodwill and evaluate our goodwill balances and test them for impairment in accordance with related accounting standards.

Other Intangible Assets

	January 31, 2018		October 31, 2017		
(In millions)	Gross Carrying Amount	Accumulated Amortization & Translation	Gross Carrying Amount	Accumulated Amortization & Translation	Weighted Average Amortization Period (In years)
Trademarks	$69.4	$ 11.5	$44.5	$ 10.3	13
Composite intangible asset	1,061.9	17.7	—	—	15
Technology	432.1	182.7	428.8	173.2	11
Customer relationships	362.5	153.5	335.5	145.3	13
License and distribution rights and other	76.3	49.0	69.2	44.5	9
	2,002.2	$ 414.4	878.0	$ 373.3	14
Less: accumulated amortization and translation	414.4		373.3		
Other intangible assets, net	$1,587.8		$504.7		

We estimate that amortization expense for our existing other intangible assets at January 31, 2018, will be $144.8 million in fiscal 2018, $142.6 million in fiscal 2019, $132.3 million in fiscal 2020, $130.8 million in fiscal 2021 and $128.8 million in fiscal 2022.

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Note 5. Debt

(In millions)	January 31, 2018	October 31, 2017
Short-term:		
Overdraft and other credit facilities	$ 29.6	$ 23.4
	$ 29.6	$ 23.4
Long term:		
Credit Agreement	$ 125.0	$ 323.0
Term loans	2,255.0	830.0
Other	0.2	0.2
Less: unamortized debt issuance cost	(7.3)	(3.9)
	$ 2,372.9	$ 1,149.3

$1.425 billion Term Loan on November 1, 2017 (2017 Term Loan Agreement)
On November 1, 2017, in connection with the PARAGARD acquisition, we entered into a new five-year, $1.425 billion, senior unsecured term loan agreement by and among the Company, the lenders party thereto and DNB Bank ASA, New York Branch, as administrative agent (2017 Term Loan Agreement) which matures on November 1, 2022. The Company used part of the facility to fund the PARAGARD acquisition and used the remainder of the funds to partially repay outstanding borrowings under our revolving credit agreement.
Amounts outstanding under the 2017 Term Loan Agreement will bear interest, at our option, at either the base rate, or the adjusted LIBO rate (each as defined in the 2017 Term Loan Agreement), plus, in each case, an applicable rate of, between 0.00% and 0.75% in respect of base rate loans and between 1.00% and 1.75% in respect of adjusted LIBO rate loans, in each case in accordance with a pricing grid tied to the Total Leverage Ratio as defined in the 2017 Term Loan Agreement.

The 2017 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 2017 Term Loan Agreement, consistent with the 2016 Credit Agreement discussed below.
Revolving Credit and Term Loan Agreement on March 1, 2016 (2016 Credit Agreement)
On March 1, 2016, we entered into a new Revolving Credit and Term Loan Agreement (2016 Credit Agreement), among the Company, CooperVision International Holding Company, LP, the lenders party thereto and KeyBank National Association, as administrative agent. The 2016 Credit Agreement provides for a multicurrency revolving credit facility in an aggregate principal amount of $1.0 billion and a term loan facility in an aggregate principal amount of $830.0 million, each of which, unless terminated earlier, mature on March 1, 2021. In addition, we have the ability from time to time to request an increase to the size of the revolving credit facility or establish one or more new term loans under the term loan facility in an aggregate amount up to $750.0 million, subject to the discretionary participation of the lenders.

Amounts outstanding under the 2016 Credit Agreement will bear interest, at our option, at either the base rate, or the adjusted LIBO rate or adjusted foreign currency rate (each as defined in the 2016 Credit Agreement), plus, in each case, an applicable rate of between 0.00% and 0.75% in respect of base rate loans and between 1.00% and 1.75% in respect of adjusted LIBO rate or adjusted foreign currency rate loans, in each case in accordance with a pricing grid tied to the Total Leverage Ratio, as defined in the 2016 Credit Agreement.

We pay an annual commitment fee that ranges from 0.125% to 0.25% of the unused portion of the revolving credit facility depending on certain financial ratios. In addition to the annual commitment fee described above, we are also

required to pay certain letter of credit and related fronting fees and other administrative fees pursuant to the terms of the 2016 Credit Agreement.

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The 2016 Credit Agreement contains customary restrictive covenants, as well as financial covenants that require us to maintain a certain Total Leverage Ratio and Interest Coverage Ratio, each as defined in the 2016 Credit Agreement:

- Interest Coverage Ratio, as defined, to be at least 3.00 to 1.00 at all times.
- Total Leverage Ratio, as defined, to be no higher than 3.75 to 1.00.

At January 31, 2018, we were in compliance with the Interest Coverage Ratio at 19.42 to 1.00 and the Total Leverage Ratio at 2.68 to1.00 for both the 2017 Term Loan Agreement and the 2016 Credit Agreement.
At January 31, 2018, we had $830.0 million outstanding under the Term Loan and $874.7 million available under the Revolving Credit Agreement.
Refer to our Annual Report on Form 10-K for the fiscal year ended October 31, 2017 for more details.

Note 6. Income Taxes

Recent Tax Legislation

The Tax Cuts and Jobs Act (2017 Act) was enacted into law on December 22, 2017 and significantly changes existing U.S. tax law. The 2017 Act adopts a territorial tax system, imposes a mandatory one-time transition tax on earnings of foreign subsidiaries that were previously tax deferred, and reduces the U.S. federal statutory tax rate from 35% to 21%. The reduction in the U.S. federal statutory tax rate is effective on January 1, 2018 which requires the Company to use a blended tax rate for fiscal 2018. Our blended tax rate is 23.34% for fiscal 2018 and is calculated by applying a pro-rated percentage based on the number of days in our fiscal 2018 before and after the January 1, 2018 effective date. For fiscal 2019 and subsequent years, the Company will utilize the enacted U.S. federal statutory tax rate of 21%.
The 2017 Act includes several provisions that are effective for our fiscal 2019: (i) tax on global intangible low-taxed income (GILTI) of foreign subsidiaries, (ii) tax on certain payments between a U.S. Corporation and its foreign subsidiaries referred to as the base erosion and anti-abuse tax (BEAT), (iii) limitation on the tax deduction for interest payments, and (iv) expanded limitation on the tax deduction for compensation paid to certain executives.
The 2017 Act is effective in the first quarter of fiscal 2018. As of January 31, 2018, we have not completed our accounting for the tax effects of the enactment of the 2017 Act. Consistent with SEC guidance, we recorded a provisional tax expense in our financial statements based on reasonable estimates of the tax effects of the 2017 Act. The provisional tax expense is subject to revisions as we gather and prepare additional information to complete our analysis of the 2017 Act, and interpret additional guidance issued by the FASB, Internal Revenue Service and U.S. Treasury Department. The provisional tax expense will be finalized during the measurement period, which should not extend beyond one year from the enactment date, and could be materially different than our provisional tax expense. The provisional tax expense is described in more detail below.
The Company recorded a $177.9 million provisional tax expense for the mandatory deemed repatriation of deferred foreign earnings and plans to pay the applicable amounts over eight years. The 2017 Act requires us to incur a one-time transition tax on deferred foreign income not previously subject to U.S. income tax at a rate of 15.5% for foreign cash and certain other net current assets, and 8% on the remaining deferred foreign income. We have not completed our analysis of the transition tax because we are still gathering information and analyzing the earnings and profits, and foreign tax credits which are critical inputs to the calculation. Estimates have been used for fiscal 2017 and part of fiscal 2018 because tax returns have not been filed for those years.
The Company recorded a provisional tax expense of $13.2 million to record changes to the deferred taxes resulting from the U.S. federal rate decreasing from 35% to 21%. The amount is calculated using the applicable tax rates in the years in which the deferred tax assets and liabilities are expected to reverse. The Company is still analyzing certain aspects of the 2017 Act and refining the calculations, which could affect the measurement of the deferred taxes or give rise to new deferred tax amounts. The re-measurement of deferred taxes included in our financial statements will be subject to further revisions if our current estimates vary from our actual future operating results.

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Due to the changes in the 2017 Act, we are reviewing our prior assertion that earnings from our foreign subsidiaries are indefinitely reinvested. For purposes of recording the provisional tax expense this quarter, we are no longer asserting that earnings from our foreign subsidiaries are indefinitely reinvested. Accordingly, we have recorded provisional estimates relating to additional state income taxes of $8.1 million and withholding taxes of $2.8 million relating to the unremitted foreign earnings. We have not completed our analysis because we are still gathering additional information to quantify the impact to the individual states and to quantify the withholding taxes that would be owed when future dividends are paid to the U.S. As the Company completes its analysis appropriate changes will be made to the financial statements within the measurement period.
The 2017 Act imposes a new tax on foreign earnings and profits in excess of a deemed return on tangible assets of foreign subsidiaries referred to as GILTI. The 2017 Act also imposes a new tax on certain payments between a U.S. Corporation and its foreign subsidiaries referred to as BEAT. These new provisions are effective for fiscal 2019. Due to the complexity of the new GILTI and BEAT tax rules, we are continuing to evaluate these new provisions and the application of GAAP. With respect to GILTI, the Company has not progressed sufficiently in its analysis and has not made an accounting policy election to treat taxes due on the GILTI inclusion as a current period expense or factor such amounts into the measurement of our deferred taxes. The Company will continue its evaluation and make a policy election within the measurement period.
The 2017 Act limits the future deductions relating to interest expense and certain executive compensation. These provisions are generally effective for the Company in fiscal 2019. Pursuant to transition rules provided in the 2017 Act relating to the deduction for executive compensation, companies will be allowed tax deductions for performance based plans in existence on or before November 2, 2017 and not materially modified after that date. Based on our current interpretation of the transition rules, we believe the Company will be able to deduct the executive compensation relating to those plans. Therefore, we have not recorded any provisional tax expense this quarter. As additional guidance, to clarify the transition rules, is provided by the tax authorities we will make appropriate changes within the measurement period.
Effective Tax Rate
Cooper's effective tax rates were 263.7% and 5.4% for the first quarters of fiscal 2018 and 2017, respectively. The increase in our effective tax rate for the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 was primarily due to the charge of $202.0 million related to the 2017 Act. Our effective tax rate for the first quarter of fiscal 2018 was higher than the U.S. Statutory rate because of the discrete tax expense relating to the 2017 Act, which was partially offset by a favorable mix of income from our foreign jurisdictions with lower tax rates and an excess tax benefit from share-based compensation. Our effective tax rate for the first quarter of fiscal 2017 was lower than the U.S. Statutory rate primarily because of a favorable mix of income from our foreign jurisdictions with lower tax rates and an excess tax benefit from share-based compensation.

We recognize the benefit from a tax position only if it is more likely than not that the position would be sustained upon audit based solely on the technical merits of the tax position. As of January 31, 2018 and October 31, 2017, Cooper had unrecognized tax benefits of $61.9 million and $59.9 million respectively. The increase is primarily related to current period transfer pricing. It is our policy to recognize interest and penalties directly related to income taxes as additional income tax expense. It is reasonably possible that $6.1 million of unrecognized tax benefits could be settled during the next twelve months.
The Company is subject to United States Federal income tax examinations for fiscal 2015 through 2017. Cooper remains subject to income tax examinations in other significant tax jurisdictions including the United Kingdom, Japan, France and Australia for the tax years 2013 through 2017.
The United Kingdom tax authorities (U.K. Tax Authorities) enacted a Diverted Profits Tax (DPT) as of April 1, 2015 on profits of multinationals that they deemed artificially diverted from the United Kingdom. The tax rate is 25%. DPT

is intended to apply in two situations; (a) where a foreign company has artificially avoided having a taxable presence in the United Kingdom and (b) where a group adopts a structure which lacks economic substance in order to divert profits from the United Kingdom.

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In fiscal 2017, The U.K. Tax Authorities began an inquiry regarding the application of the DPT for 2015. We believe that the transactions in question were at arm’s length with no intention to divert profit from the United Kingdom and therefore are outside the intended reach of the DPT.

On December 20, 2017, the U.K. Tax Authorities issued a DPT charging notice of approximately GBP 31.0 million with respect to the transfer out of the United Kingdom of certain intellectual property rights in connection with the 2014 acquisition of Sauflon Pharmaceutical Ltd. Although the taxes were paid on the transfer, the UK Tax Authorities are challenging the value assigned to such property. We intend to contest the charging notice vigorously. The process for resolving such a notice can be lengthy and could involve litigation. The company is cooperating with the U.K. Tax Authorities to resolve this issue. The outcome of this matter cannot be predicted with certainty and may have an adverse impact on our financial condition and results.

Note 7. (Loss) Earnings Per Share

Three Months Ended January 31, (In millions, except per share amounts)	2018			2017	
Net (loss) income attributable to Cooper stockholders	$	(122.5	)	$	75.8
Basic:					
Weighted average common shares	48.9			48.8	
Basic (loss) earnings per common share attributable to Cooper stockholders	$	(2.50	)	$	1.55
Diluted:					
Weighted average common shares	48.9			48.8	
Effect of potential dilutive common shares	—			0.6	
Diluted weighted average common shares*	48.9			49.4	
Diluted (loss) earnings per common share attributable to Cooper stockholders	$	(2.50	)	$	1.53

*The number of diluted weighted average common shares used to calculate fiscal 2018 diluted loss per share excludes all potentially dilutive instruments because they would be antidilutive due to the net loss position.

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

Three Months Ended January 31,

(In thousands, except exercise prices)	2018	2017
Number of stock option shares excluded	1,202	239
Range of exercise prices	$15.83-$229.66	$162.28-$175.31
Numbers of restricted stock units excluded	546	—

Note 8. Share-Based Compensation Plans

Cooper has several share-based compensation plans that are described in the Company's Annual Report on Form 10 K for the fiscal year ended October 31, 2017. The compensation expense and related income tax benefit recognized in our consolidated condensed financial statements for share-based awards were as follows:

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Three Months Ended January 31,		
(In millions)	2018	2017
Selling, general and administrative expense	$10.7	$9.6
Cost of sales	1.3	1.2
Research and development expense	0.7	0.4
Total share-based compensation expense	$12.7	$11.2
Related income tax benefit	$2.5	$3.3

We capitalized share-based compensation expense as part of the cost of inventory in the amounts of $1.3 million during the three months ended January 31, 2018, and $1.2 million during the three months ended January 31, 2017.

Note 9. Stockholders' Equity

Analysis of Changes in Accumulated Other Comprehensive (Loss) Income:

(In millions)	Foreign Currency Translation Adjustment	Minimum Pension Liability	Total
Balance at October 31, 2016	$ (461.4)	$ (28.2)	$(489.6)
Gross change in value during the year ended October 31, 2017	107.7	10.8	118.5
Tax effect for the period	—	(4.2)	(4.2)
Balance at October 31, 2017	$ (353.7)	$ (21.6)	$(375.3)
Gross change in value during the three months ended January 31, 2018	102.3	—	102.3
Balance at January 31, 2018	$ (251.4)	$ (21.6)	$(273.0)

Share Repurchases

In December 2011, our Board of Directors authorized the 2012 Share Repurchase Program and through subsequent amendments, the most recent in March 2017, the total repurchase authorization was increased from $500.0 million to $1.0 billion of the Company's common stock. This program has no expiration date and may be discontinued at any time. Purchases under the 2012 Share Repurchase Program are subject to a review of the circumstances in place at the time and may be made from time to time as permitted by securities laws and other legal requirements. We did not repurchase shares in the first quarter of fiscal 2018 and in fiscal 2017. At January 31, 2018, $563.5 million remains authorized for repurchase under the program.

Dividends

We paid a semiannual dividend of approximately $1.5 million or 3 cents per share on February 9, 2018, to stockholders of record on January 23, 2018.

Note 10. Fair Value Measurements

At January 31, 2018 and October 31, 2017, the carrying value of cash and cash equivalents, accounts receivable, prepaid expense and other current assets, lines of credit, accounts payable and other current liabilities approximate fair value due to the short-term nature of such instruments and the ability to obtain financing on similar terms.

Assets and liabilities are measured and reported at fair value per related accounting standards that define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. An asset's or liability's level is based on the lowest level of input that is significant to the fair value measurement. Assets and liabilities carried at fair value are valued and disclosed in one of the following three levels of the valuation hierarchy:

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Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.
We believe that the balances of our revolving credit agreement and term loans approximated their fair values at January 31, 2018 and October 31, 2017 and are categorized as Level 2 of the fair value hierarchy. The Company did not have any derivative assets or liabilities that may include interest rate swaps, cross currency swaps or foreign currency forward contracts as of January 31, 2018 and October 31, 2017.

Note 11. Employee Benefits

Cooper's Retirement Income Plan (Plan), a defined benefit plan, covers substantially all full-time United States employees. Our contributions are designed to fund normal cost on a current basis and to fund the estimated prior service cost of benefit improvements. The unit credit actuarial cost method is used to determine the annual cost. Cooper pays the entire cost of the Plan and funds such costs as they accrue. Virtually all of the assets of the Plan are comprised of equities and participation in equity and fixed income funds.
Our results of operations for the three months ended January 31, 2018 and 2017, reflect the following components of net periodic pension costs:

Three Months Ended January 31,		
(In millions)	2018	2017
Service cost	$2.7	$2.5
Interest cost	1.3	1.1
Expected return on plan assets	(2.3)	(1.8)
Recognized net actuarial loss	0.4	0.7
Net periodic pension cost	$2.1	$2.5

We did not contribute to the Plan in the first quarter of fiscal 2018, and expect to contribute $10.0 million during the remainder of fiscal 2018. We did not contribute to the Plan in the first quarter of fiscal 2017. The expected rate of return on plan assets for determining net periodic pension cost is 8%.

Note 12. Contingencies

Since March 2015, over 50 putative class action complaints were filed by contact lens consumers alleging that contact lens manufacturers, in conjunction with their respective Unilateral Pricing Policy (UPP), conspired to reach agreements between each other and certain distributors and retailers regarding the prices at which certain contact lenses could be sold to consumers. The plaintiffs are seeking damages against CooperVision, Inc., other contact lens manufacturers, distributors and retailers, in various courts around the United States. In June 2015, all of the class action cases were consolidated and transferred to the United States District Court for the Middle District of Florida. In August 2017, CooperVision entered into a settlement agreement with the plaintiffs, without any admission of liability, to settle all claims against CooperVision. The Company recorded a settlement accrual of $3.0 million in the third quarter fiscal ended July 31, 2017. The settlement remains subject to Court approval.

The Company is involved in various lawsuits, claims and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters. The Company does not believe that the ultimate resolution of these proceedings or claims pending against it could have a material adverse effect on its financial condition or results of operations. At each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under ASC 450, Contingencies. Legal fees are expensed as incurred.

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Other

During fiscal 2017, the UK Tax Authorities began an inquiry regarding our application of DPT in fiscal 2015. We believe that the transactions in question were at arm’s length with no intention to divert profit from the UK and therefore are outside the intended reach of the Diverted Profit Tax.
On December 20, 2017, the U.K. Tax Authorities issued a DPT charging notice of approximately GBP 31.0 million with respect to the transfer out of the United Kingdom of certain intellectual property rights in connection with the 2014 acquisition of Sauflon Pharmaceutical Ltd. Although taxes were paid on the transfer, the UK Tax Authorities are challenging the value assigned to such property. We intend to contest the charging notice vigorously. The process for resolving such a notice can be lengthy and could involve litigation. The DPT legislation provides a one year review period, however, it requires prepayment of the charging notice to be made within 30 days of its issuance. As required, the payment of GBP 31.0 million was made on January 19, 2018. The company continues to cooperate with the U.K. Tax Authorities to resolve this issue. The outcome of this matter cannot be predicted with certainty and may have an adverse impact on our financial condition and results.
Note 13. Business Segment Information
Cooper uses operating income, as presented in our financial reports, as the primary measure of segment profitability. We do not allocate costs from corporate functions to segment operating income. Items below operating income are not considered when measuring the profitability of a segment. We use the same accounting policies to generate segment results as we do for our consolidated results.
Total assets are those used in continuing operations except cash and cash equivalents, which we include as corporate assets.
Segment information:

Three Months Ended January 31,		
(In millions)	2018	2017
CooperVision net sales by category:		
Toric lens	$137.8	$120.7
Multifocal lens	46.9	42.4
Single-use sphere lens	116.3	99.5
Non single-use sphere and other	143.8	126.7
Total CooperVision net sales	444.8	389.3
CooperSurgical net sales	145.2	109.8
Total net sales	$590.0	$499.1
Operating income (loss):		
CooperVision	$112.3	$87.3
CooperSurgical	(9.3)	16.4
Corporate	(12.8)	(13.0)
Total operating income	90.2	90.7
Interest expense	18.4	7.3
Other (income) expense, net	(3.0)	3.3
Income before income taxes	$74.8	$80.1

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(In millions)	January 31, 2018	October 31, 2017
Total assets:		
CooperVision	$ 3,826.7	$ 3,562.6
CooperSurgical	2,260.2	1,107.5
Corporate	181.7	188.6
Total	$ 6,268.6	$ 4,858.7

Geographic information:

Three Months Ended January 31,		
(In millions)	2018	2017
Net sales to external customers by country of domicile:		
United States	$261.5	$224.3
Europe	203.8	168.3
Rest of world	124.7	106.5
Total	$590.0	$499.1

(In millions)	January 31, 2018	October 31, 2017
Net property, plant and equipment by country of domicile:		
United States	$ 484.2	$ 472.8
Europe	368.3	352.3
Rest of world	99.5	85.0
Total	$ 952.0	$ 910.1

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and Results of Operations

Note numbers refer to "Notes to Consolidated Condensed Financial Statements" in Item 1. Financial Statements.

Forward-Looking Statements
This Quarterly Report on Form 10-Q contains "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. These include statements relating to plans, prospects, goals, strategies, future actions, events or performance and other statements which are other than statements of historical fact, including all statements regarding acquisitions including the acquired companies' financial position, market position, product development and business strategy, expected cost synergies, expected timing and benefits of the transaction, difficulties in integrating entities or operations, as well as estimates of our and the acquired entities' future expenses, sales and earnings per share are forward-looking. In addition, all statements regarding anticipated growth in our revenue, anticipated effects of any product recalls, anticipated market conditions, planned product launches and expected results of operations and integration of any acquisition are forward-looking. To identify these statements look for words like "believes," "expects," "may," "will," "should," "could," "seeks," "intends," "plans," "estimates" or "anticipates" and similar words or phrases. Forwa statements necessarily depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Among the factors that could cause our actual results and future actions to differ materially from those described in forward-looking statements are:

- Adverse changes in the global or regional general business, political and economic conditions, including the impact of continuing uncertainty and instability of certain countries that could adversely affect our global markets, and the potential adverse economic impact and related uncertainty caused by these items, including but not limited to, the United Kingdom's election to withdraw from the European Union.
- Changes in tax laws or their interpretation and changes in statutory tax rates, including but not limited to, the United States, the United Kingdom and other countries with proposed changes to tax laws, some of which may affect our taxation of earnings recognized in foreign jurisdictions and/or negatively impact our effective tax rate.
- Our existing indebtedness and associated interest expense, most of which is variable and impacted by rate increases, which could adversely affect our financial health or limit our ability to borrow additional funds.
- Foreign currency exchange rate and interest rate fluctuations including the risk of fluctuations in the value of foreign currencies or interest rates that would decrease our revenues and earnings.
- Acquisition-related adverse effects including the failure to successfully obtain the anticipated revenues, margins and earnings benefits of acquisitions, integration delays or costs and the requirement to record significant adjustments to the preliminary fair value of assets acquired and liabilities assumed within the measurement period, required regulatory approvals for an acquisition not being obtained or being delayed or subject to conditions that are not anticipated, adverse impacts of changes to accounting controls and reporting procedures, contingent liabilities or indemnification obligations, increased leverage and lack of access to available financing (including financing for the acquisition or refinancing of debt owed by us on a timely basis and on reasonable terms).
- A major disruption in the operations of our manufacturing, accounting and financial reporting, research and development, distribution facilities or raw material supply chain due to integration of acquisitions, natural disasters, system upgrades or other causes.
- A major disruption in the operations of our manufacturing, accounting and financial reporting, research and development or distribution facilities due to technological problems, including any related to our information systems maintenance, enhancements or new system deployments, integrations or upgrades.
- Disruptions in supplies of raw materials, particularly components used to manufacture our silicone hydrogel lenses.
- New U.S. and foreign government laws and regulations, and changes in existing laws, regulations and enforcement guidance, which affect areas of our operations including, but not limited to, those affecting the

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health care industry, including the contact lens industry specifically and the medical device or pharmaceutical industries generally.

- Compliance costs and potential liability in connection with U.S. and foreign laws and health care regulations pertaining to privacy and security of third party information, such as HIPAA in the U.S. and the pending General Data Protection Regulation requirements which are to take effect in Europe on May 25, 2018, including but not limited to those resulting from data security breaches.
- Legal costs, insurance expenses, settlement costs and the risk of an adverse decision, prohibitive injunction or settlement related to product liability, patent infringement or other litigation.
- Limitations on sales following product introductions due to poor market acceptance.
- New competitors, product innovations or technologies, including but not limited to, technological advances by competitors, new products and patents attained by competitors, and competitors' expansion through acquisitions.
- Reduced sales, loss of customers and costs and expenses related to product recalls and warning letters.
- Failure to receive, or delays in receiving, U.S. or foreign regulatory approvals for products.
- Failure of our customers and end users to obtain adequate coverage and reimbursement from third party payors for our products and services.
- The requirement to provide for a significant liability or to write off, or accelerate depreciation on, a significant asset, including goodwill and idle manufacturing facilities and equipment.
- The success of our research and development activities and other start-up projects.
- Dilution to earnings per share from acquisitions or issuing stock.
- Changes in accounting principles or estimates.
- Environmental risks.
- Other events described in our Securities and Exchange Commission filings, including the "Business" and "Risk Factors" sections in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017, as such Risk Factors may be updated in quarterly filings.

We caution investors that forward-looking statements reflect our analysis only on their stated date. We disclaim any intent to update them except as required by law.

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

Results of Operations
In this section, we discuss the results of our operations for the first quarter of fiscal 2018 ended January 31, 2018, and compare them with the same periods of fiscal 2017. We discuss our cash flows and current financial condition under "Capital Resources and Liquidity." Within the tables presented, percentages are calculated based on the underlying whole-dollar amounts and, therefore, may not recalculate from the rounded numbers used for disclosure purposes.
First Quarter Highlights
- Net sales of $590.0 million, up 18% from $499.1 million. CooperVision net sales up 14% to $444.8 million. CooperSurgical net sales up 32% to $145.2 million
- Gross profit $370.9 million, up 19% from $312.4 million. Gross margin 63%, same as prior year period.
- Operating income $90.2 million, down 1% from $90.7 million.
- Diluted (loss) earnings per share of ($2.50) per share, down from $1.53 per share in prior year period.
- Cash provided by operations $26.2 million, compared to $108.4 million in the prior year period.

Outlook
Overall, we remain optimistic about the long-term prospects for the worldwide contact lens and general health care markets. However, events affecting the economy as a whole, including but not limited to the uncertainty and instability of global markets driven by foreign currency volatility, debt concerns, the uncertainty caused by the United Kingdom's intention to withdraw from the European Union, and the trend of consolidation within the health care industry, impact our current performance and continue to represent a risk to our future performance.
CooperVision - We compete in the worldwide contact lens market with our spherical, toric and multifocal contact lenses offered in a variety of materials including using silicone hydrogel Aquaform® technology and phosphorylcholine technology (PC) Technology™. We believe that there will be lower contact lens wearer dropout rates as technology improves and enhances the wearing experience through a combination of improved designs and materials and the growth of preferred modalities such as single-use and monthly wearing options. CooperVision is focused on greater worldwide market penetration using recently introduced products, and we continue to expand our presence in existing and emerging markets, including through acquisitions.
On January 4, 2018, CooperVision acquired Blueyes, a long-standing distribution partner, with a leading position in the distribution of contact lenses to the Optical and Pharmacy sector in Israel. On December 1, 2017, CooperVision acquired Paragon Vision Sciences, a leading provider of orthokeratology (ortho-k) specialty contact lenses and oxygen permeable rigid contact lens materials. In fiscal 2017, CooperVision acquired Procornea, a Netherlands based manufacturer of specialty contact lenses, which expands CooperVision's access to myopia (nearsightedness) management markets with new products; and Grand Vista LLC, a distributor in Russia of soft contact lenses.
Sales of contact lenses utilizing silicone hydrogel materials continue to grow and this material represents about half of the industry. Our ability to compete successfully with a full range of silicone hydrogel products is an important factor to achieving our desired future levels of sales growth and profitability. CooperVision manufactures and markets a wide variety of silicone hydrogel contact lenses within the daily, two-week and monthly modalities along with manufacturing some of these lenses as toric and/or multifocal lenses. We market these lenses under a number of different brand names, including but not limited to Biofinity®, clariti®, MyDay® and Avaira®.
We believe that the global market for single-use contact lenses will continue growing and our single-use silicone hydrogel products represent an opportunity for our business. Our clariti 1day brand provides the only single-use silicone hydrogel lenses in the marketplace with a complete line of spherical, toric and multifocal contact lenses. We expect increasing aggregate demand for clariti 1day and MyDay products, as well as future single-use products.
CooperSurgical - Our CooperSurgical business competes in the general health care market with a focus on advancing the health of families through a diversified portfolio of products and services focusing on women's health, fertility,

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diagnostics and contraception. CooperSurgical has established its market presence and distribution system by developing products and acquiring companies, products and services that complement its business model. CooperSurgical product sales are categorized based on the point of health care delivery including products used in medical office and surgical procedures primarily by obstetricians and gynecologists (ob/gyns) that represented 61% of CooperSurgical's net sales in the first quarter of fiscal 2018 compared to 48% in the prior year. CooperSurgical's remaining sales are specialized products and services that largely target the in vitro fertilization (IVF) process used in fertility that now represent 39% of CooperSurgical's net sales from 52% in the prior year. This change in product mix was primarily attributable to recent acquisitions discussed below.
We have continued to invest in CooperSurgical's business through the acquisition of companies and product lines for new or complementary products and services.

On November 1, 2017, CooperSurgical acquired the assets of the PARAGARD Intrauterine Device (IUD) business (PARAGARD) from Teva Pharmaceuticals Industries Limited (Teva) for $1.1 billion. We acquired PARAGARD as the product broadens and strengthens CooperSurgical's current women's health product portfolio. PARAGARD is the only non-hormonal, long lasting, reversible contraceptive option approved by FDA available in the United States. IUDs represent a large and growing segment of the contraceptive market and this acquisition allows CooperSurgical to accelerate growth providing opportunities for operational synergies. In connection with the acquisition, we entered into a new five-year, $1.425 billion, senior unsecured term loan agreement by and among the Company, the lenders party thereto and DNB Bank, as administrative agent. We used part of the facility to fund the acquisition of PARAGARD and used the remainder of the funds to partially repay outstanding borrowings under our revolving credit agreement.
In fiscal 2017, CooperSurgical acquired Wallace, the IVF segment of Smiths Medical International Ltd. We intend to continue investing in CooperSurgical's business with the goal of expanding our integrated solutions model within the areas of women's health, fertility and diagnostics.

Capital Resources - At January 31, 2018, we had $91.7 million in cash, primarily held outside the United States, and $874.7 million available under our syndicated revolving credit agreement. The $830.0 million term loan entered on March 1, 2016 and $1.425 billion term loan entered on November 1, 2017 remained outstanding at January 31, 2018.

On March 1, 2016, we entered into a syndicated revolving Credit and Term Loan Agreement with Keybank as administrative agent (2016 Credit Agreement). This agreement, maturing on March 1, 2021, replaced our previous revolving credit agreement, entered into on January 12, 2011 and provides for a multi-currency revolving credit facility in an aggregate principal amount of $1.0 billion and a term loan facility in the aggregate principal amount of $830.0 million. On November 1, 2017, we entered into a syndicated Term Loan Agreement with DNB Bank as administrative agent (2017 Term Loan Agreement). We used funds from the 2017 Term Loan Agreement to fund the acquisition of PARAGARD, to repay outstanding amounts under the 2016 Credit Agreement, and for general corporate purposes. See Note 5. Debt for additional information.

The Company believes that current cash, cash equivalents, restricted cash, and future cash flow from operating activities will be sufficient to meet the Company's anticipated cash needs, including working capital needs, capital expenditures and contractual obligations for at least 12 months from the issuance date of these financial statements. To the extent additional funds are necessary to meet our liquidity needs such as that for acquisitions, share repurchases, cash dividends or other activities as we execute our business strategy, we anticipate that additional funds

will be obtained through the incurrence of additional indebtedness, additional equity financings or a combination of these potential sources of funds; however, such financing may not be available on favorable terms, or at all.

Selected Statistical Information – Percentage of Sales and Growth

	Percentage of Sales		2018 vs 2017
Three Months Ended January 31,	2018	2017	% Change
Net sales	100%	100%	18 %
Cost of sales	37 %	37 %	17 %
Gross profit	63 %	63 %	19 %
Selling, general and administrative expense	38 %	38 %	20 %
Research and development expense	3 %	3 %	16 %
Amortization of intangibles	6 %	3 %	116 %
Operating income	15 %	18 %	(1)%

Net Sales

Our two business units, CooperVision and CooperSurgical, generate all of our sales. Our consolidated net sales grew by $90.9 million or 18%, in the three months ended January 31, 2018.

Three Months Ended January 31,

($ in millions)	2018	2017	2018 vs 2017 % Change
CooperVision	$444.8	$389.3	14 %
CooperSurgical	145.2	109.8	32 %
	$590.0	$499.1	18 %

CooperVision Net Sales

The contact lens market has two major product categories:

- Spherical lenses including lenses that correct near- and farsightedness uncomplicated by more complex visual defects.
- Toric and multifocal lenses including lenses that, in addition to correcting near- and farsightedness, address more complex visual defects such as astigmatism and presbyopia by adding optical properties of cylinder and axis, which correct for irregularities in the shape of the cornea.

In order to achieve comfortable and healthy contact lens wear, products are sold with recommended replacement schedules, often defined as modalities, with the primary modalities being single-use, two-week and monthly. CooperVision offers spherical, toric, multifocal and toric multifocal lens products in most modalities.

Single-use lenses are designed for daily replacement and frequently replaced lenses are designed for two-week or monthly replacement. Significantly, the market for spherical lenses is growing with value-added spherical lenses to alleviate dry eye symptoms, to reduce eye fatigue from use of digital devices, to add aspherical optical properties and/or higher oxygen permeable lenses such as silicone hydrogels.

We manufacture CooperVision's silicone hydrogel Biofinity brand spherical, toric and multifocal contact lenses, Avaira brand spherical and toric lenses and MyDay brand spherical and toric lenses using proprietary Aquaform technology to increase oxygen transmissibility for longer wear. Our silicone hydrogel clariti brand spherical, toric and multifocal contact lenses are available in monthly and single-use modalities. We believe the clariti single-use silicone hydrogel lens products provide a competitive advantage in approved markets as clariti is the only single-use silicone hydrogel lens available in all vision correction categories - spherical, toric and multifocal.

CooperVision's Proclear brand aspheric, toric and multifocal contact lenses, manufactured using PC Technology™, help enhance tissue/device compatibility and offer improved lens comfort.

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CooperVision Net Sales by Category
Three Months Ended January 31,

($ in millions)	2018	% Net Sales	2017	% Net Sales	2018 vs 2017 % Change
Toric	$137.8	31 %	$120.7	31 %	14 %
Multifocal	46.9	11 %	42.4	11 %	11 %
Single-use spheres	116.3	26 %	99.5	26 %	17 %
Non single-use sphere, other	143.8	32 %	126.7	32 %	14 %
	$444.8	100%	$389.3	100%	14 %

In the first quarter of fiscal 2018, CooperVision's toric and multifocal lenses grew largely through the success of our Biofinity, clariti and MyDay portfolios, offset by declines in older hydrogel products. Single-use sphere lenses growth was largely attributed to clariti and MyDay lenses offset by declines in older hydrogel products. Non single-use spheres grew largely on sales of Biofinity offset by declines in older hydrogel products. The term "other" products primarily includes lens care, representing approximately 3% of net sales in first quarter of fiscal 2018. Total silicone hydrogel products, including clariti, Biofinity, Avaira and MyDay grew 22% in first quarter of fiscal 2018, representing 67% of net sales compared to 63% in the prior fiscal year.

CooperVision Net Sales by Geography

CooperVision competes in the worldwide soft contact lens market and services three primary regions: the Americas, EMEA (Europe, Middle East and Africa) and Asia Pacific.
Three Months Ended January 31,

($ in millions)	2018	2017	2018 vs 2017 % Change
Americas	$169.1	$163.0	4 %
EMEA	177.9	144.9	23 %
Asia Pacific	97.8	81.4	20 %
	$444.8	$389.3	14 %

CooperVision's first quarter of fiscal 2018 net sales growth includes foreign exchange rate fluctuations positively impacting net sales by $20.4 million. Americas net sales growth was primarily due to market gains of silicone hydrogel contact lenses including Biofinity, clariti and MyDay, partially offset by a decrease in sales of older hydrogel lens products. EMEA net sales growth was largely due to market gains of silicone hydrogel contact lenses including Biofinity, clariti and MyDay, offset by a decrease in sales of older hydrogel products. Net sales in the Asia Pacific region grew on market gains of silicone hydrogel and hydrogel lenses, including Biofinity, clariti and MyDay. CooperVision’s net sales growth was driven primarily by increases in the volume of lenses sold, including recently introduced silicone hydrogel products. While unit growth and product mix have influenced CooperVision’s net sales, average realized prices by product have not materially influenced sales growth.

CooperSurgical Net Sales

CooperSurgical supplies the family health care market with a diversified portfolio of products and services for use in surgical and other medical procedures that are performed primarily by obstetricians and gynecologists in hospitals, surgical centers, fertility clinics and in the medical office. Fertility offerings include highly specialized products and services that target the IVF process with a goal to make fertility treatment safer, more efficient and convenient.

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Three Months Ended January 31,

($ in millions)	2018	% Net Sales	2017	% Net Sales	2018 vs 2017 % Change
Fertility	$57.0	39 %	$56.8	52 %	— %
Office and surgical products	88.2	61 %	53.0	48 %	66 %
	$145.2	100 %	$109.8	100 %	32 %

CooperSurgical’s net sales grew by 32% in first quarter of fiscal 2018 compared to prior year period, primarily due to the acquisition of the PARAGARD IUD. Net sales in fertility product line remained flat compared to the prior year as the growth of fertility solutions including media products was offset by a decline in genetic testing revenue. The net sales of medical office and surgical procedures increased compared to prior year due to continued growth in recently acquired products primarily PARAGARD. Further, unit growth and product mix positively influenced sales growth.

Cost of Sales/Gross Profit
Gross Profit Percentage of Net Sales

Three Months Ended January 31,	2018	2017
CooperVision	66 %	63 %
CooperSurgical	54 %	61 %
Consolidated	63 %	63 %

CooperVision's increase in gross margin in first quarter of fiscal 2018 compared to fiscal 2017 was primarily due to the increase in sales of higher margin products including Biofinity and favorable currency impact to CooperVision's revenue and cost of sales primarily led by the weakening of the Euro and British pound compared to the United States dollar. CooperVision's cost of sales included $5.6 million from primarily incremental costs associated with the impact of Hurricane Maria on our Puerto Rico manufacturing facility and other manufacturing related costs.
CooperSurgical's gross margin was positively impacted by the inclusion of the higher gross margin PARAGARD IUD product, offset by $5.1 million of integration costs and $16.9 million of inventory step-up relating to the PARAGARD acquisition, resulting in a decrease of gross margin in the first quarter of fiscal 2018 compared to fiscal 2017.
Selling, General and Administrative Expense (SGA)
Three Months Ended January 31,

($ in millions)	2018	% Net Sales	2017	% Net Sales	2018 vs 2017 % Change
CooperVision	$157.9	36 %	$137.4	35 %	15 %
CooperSurgical	55.2	38 %	38.2	35 %	44 %
Corporate	12.8	-	13.0	-	(2)%
	$225.9	38 %	$188.6	38 %	20 %

The increase in CooperVision's SGA in first quarter of fiscal 2018 compared to fiscal 2017 in absolute dollars and as a percentage of sales was due to investments to support our long term objectives, including increased headcount in sales, marketing and G&A, investments in information technology and higher distribution expenses to support revenue growth. CooperVision's SGA in first quarter of fiscal 2018 included $2.5 million of third party consulting costs, acquisition and integration costs.

The increase in CooperSurgical's SGA in first quarter of fiscal 2018 compared to fiscal 2017 in absolute dollars was primarily due to addition of PARAGARD marketing expenses and sales headcount investment to support growth. CooperSurgical's SGA included $6.2 million of legal costs, professional fees and acquisition and integration expenses of acquired companies.

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The decrease in Corporate SGA in first quarter of fiscal 2018 compared to fiscal 2017 was primarily due to timing of some corporate projects.

Research and Development Expense (R&D)

Three Months Ended January 31,

($ in millions)	2018	% Net Sales	2017	% Net Sales	2018 vs 2017 % Change
CooperVision	$12.2	3 %	$11.3	3 %	9 %
CooperSurgical	6.6	5 %	5.0	5 %	32 %
	$18.8	3 %	$16.3	3 %	16 %

CooperVision's research and development (R&D) increased in first quarter of fiscal 2018 compared to fiscal 2017 mainly due to increased costs from acquisitions and increase in headcount. As a percentage of sales, R&D expense remained flat. CooperVision's R&D activities are primarily focused on the development of contact lenses and manufacturing improvements.

The increase in CooperSurgical's R&D in first quarter of fiscal 2018 compared to 2017 was primarily due to increased activity to bring newly acquired products to market, increased investment in projects to develop new products and the upgrade of existing products. As a percentage of sales, R&D expense remained flat. CooperSurgical's R&D activities include in vitro fertilization product development and the design and upgrade of surgical procedure devices.

Amortization Expense

Three Months Ended January 31,

($ in millions)	2018	% Net Sales	2017	% Net Sales	2018 vs 2017 % Change
CooperVision	$10.5	2 %	$8.9	2 %	18 %
CooperSurgical	25.5	18 %	7.9	7 %	226 %
	$36.0	6 %	$16.8	3 %	116 %

The increase in amortization expense in the first quarter of fiscal 2018 compared to 2017 was primarily due to amortization of intangible assets acquired in recent acquisitions primarily PARAGARD partially offset by fully amortized intangible assets.

Operating Income

Three Months Ended January 31,

($ in millions)	2018	% Net Sales	2017	% Net Sales	2018 vs 2017 % Change
CooperVision	$112.3	25 %	$87.3	22 %	29 %
CooperSurgical	(9.3)	(6)%	16.4	15 %	(156)%
Corporate	(12.8)	-	(13.0)	-	2 %
	$90.2	15 %	$90.7	18 %	(1)%

The decrease in consolidated operating income in first quarter of fiscal 2018 compared to fiscal 2017 in absolute dollars and as a percentage of net sales was primarily due to higher operating expenses relating to acquisitions. The increase in CooperVision operating income in first quarter of fiscal 2018 compared to fiscal 2017 was primarily due to the favorable currency impact to revenue and cost of sales, increase in sales and gross margin primarily from higher

margin products including Biofinity and lower restructuring and integration costs. The decrease in CooperSurgical operating income in first quarter of fiscal 2018 compared to fiscal 2017 was due to higher operating expenses relating to

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acquisitions, including the PARAGARD inventory step up and amortization of intangibles, and investments to support growth.

Interest Expense

Three Months Ended January 31,

($ in millions)	2018	% Net Sales	2017	% Net Sales	2018 vs 2017 % Change
Interest Expense	$18.4	3 %	$7.3	1 %	152 %

Increase in interest expense in absolute dollars and as a percentage of sales reflect higher average debt balances as a result of debt incurred in connection with acquisitions as well as higher interest rates mainly due to the new $1.425 billion term loan entered into on November 1, 2017 to primarily fund the PARAGARD acquisition.

Other (Income) Expense, Net

Three Months Ended January 31,

($ in millions)	2018	2017
Foreign exchange (gain) loss	$(3.1)	$3.2
Other, net	0.1	0.1
	$(3.0)	$3.3

Foreign exchange (gain) loss is primarily resulting from revaluation and settlement of foreign currencies-denominated balances. Other expense remained flat in first quarter of fiscal 2018 from prior period.

Provision for Income Taxes

Cooper's effective tax rates were 263.7% and 5.4% for the first quarters of fiscal 2018 and 2017, respectively. The increase in our effective tax rate for the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 was primarily due to the charge of $202.0 million related to the 2017 Act. Our effective tax rate for the first quarter of fiscal 2018 was higher than the U.S. Statutory rate because of the discrete tax expense relating to the 2017 Act, which was partially offset by a favorable mix of income from our foreign jurisdictions with lower tax rates and an excess tax benefit from share-based compensation. Our effective tax rate for the first quarter of fiscal 2017 was lower than the U.S. Statutory rate primarily because of a favorable mix of income from our foreign jurisdictions with lower tax rates and an excess tax benefit from share-based compensation.

ASC 740, Income Taxes, requires companies to recognize the effect of the tax law changes in the period of enactment. However, in December 2017, the SEC provided regulatory guidance for accounting referred to as SAB 118. Under the guidance in SAB 118, the income tax effects, which the accounting under ASC 740 is incomplete, are reported as a provisional amount based on a reasonable estimate. The reasonable estimate is subject to adjustment during a "measurement period", not to exceed one year, until the accounting is complete. The estimate is also subject to the finalization of management’s analysis related to certain matters, such as developing interpretations of the provision, changes to certain estimates and amounts related to the earnings and profits of certain subsidiaries and the filing of tax returns. The Company has recorded provisional charge for the first quarter of fiscal 2018. In determining this charge, the Company utilized the most recent information and guidance available related to the calculation of the tax liability and the impact to its deferred tax assets and liabilities, including those recorded for foreign local and withholding taxes that the Company assessed as of January 31, 2018. The provisional charge may require further adjustments and changes to the Company’s estimates as new guidance is made available. Revisions to the provisional charge may be

material to the Company's financial results.

Share Repurchase

In December 2011, our Board of Directors authorized the 2012 Share Repurchase Program and through subsequent amendments, the most recent in March 2017, the total repurchase authorization was increased from $500.0 million

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to $1.0 billion of the Company's common stock. The program has no expiration date and may be discontinued at any time. We did not repurchase any shares during the first quarter of fiscal 2018. At January 31, 2018, we had remaining authorization to repurchase $563.5 million of our common stock. See the notes to consolidated condensed financial statements for additional information.

Share-Based Compensation Plans

Cooper has several share-based compensation plans that are described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017. The compensation expense and related income tax benefit recognized in our consolidated condensed financial statements for share-based awards were as follows:

Three Months Ended January 31,		
($ in millions)	2018	2017
Selling, general and administrative expense	$10.7	$9.6
Cost of sales	1.3	1.2
Research and development expense	0.7	0.4
Total share-based compensation expense	$12.7	$11.2
Related income tax benefit	$2.5	$3.3

We capitalized share-based compensation expense as part of the cost of inventory in the amounts of $1.3 million during the three months ended January 31, 2018, and $1.2 million during the three months ended January 31, 2017.

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Capital Resources and Liquidity

First Quarter Highlights

- Operating cash flow $26.2 million compared to $108.4 million in the first quarter of fiscal 2017
- Expenditures for purchases of property, plant and equipment $51.4 million compared to $28.7 million in the prior year period
- Cash payments for acquisitions, $1,193.2 million, compared to $173.4 million in the prior year period

Comparative Statistics

($ in millions)	January 31, 2018	October 31, 2017
Cash and cash equivalents	$91.7	$88.8
Total assets	$6,268.6	$4,858.7
Working capital	$759.8	$557.1
Total debt	$2,402.5	$1,172.7
Stockholders' equity	$3,156.4	$3,175.8
Ratio of debt to equity	0.76:1	0.37:1
Debt as a percentage of total capitalization	43 %	27 %

Working Capital

The increase in working capital at January 31, 2018 from the end of fiscal 2017 was primarily due to increase in accounts receivable and inventories from PARAGARD acquisition and prepayments made during the period. This was partially offset by the increase in accounts payable and other liabilities.

At January 31, 2018, our inventory months on hand (MOH) were 6.9 compared to 6.5 at October 31, 2017. The $52.2 million increase in inventories was primarily due to increase in finished goods and raw materials to support product launches and production levels and from PARAGARD. Our days sales outstanding (DSO) were 57 days at January 31, 2018, compared to 53 days at October 31, 2017 and 54 days at January 31, 2017.

We have reviewed our needs in the United States and have determined there is sufficient cash to fund working capital without repatriating cash from our foreign subsidiaries. For purposes of recording the provisional tax expense this quarter, we are no longer asserting that earnings from our foreign subsidiaries are indefinitely reinvested. However, the Company has not completed its analysis and will make a final decision within the measurement period. If the Company changes its assertion to not indefinitely reinvest foreign earnings, there will be more flexibility in using the cash from our foreign operations to fund future working capital in the United States.

Operating Cash Flow

Cash provided by operating activities decreased by $82.2 million from $108.4 million during the first quarter of fiscal 2017 to $26.2 million during the first quarter of fiscal 2018. This decrease primarily consists of an increase of $146.7 million in the net cash outflow from changes in operating capital, from $30.3 million during the first quarter of fiscal 2017 to $177.0 million in the first quarter of fiscal 2018, offset by an increase of $67.6 million in the net cash inflow from other non-cash items, from $15.1 million in the first quarter of fiscal 2017 to $82.7 million in the first quarter of fiscal 2018.

The $146.7 million increase from the comparable period in the net cash outflow from changes in operating capital is due to a $121.9 million greater increase in receivables, primarily from PARAGARD, and a $43.6 million greater

increase in prepaids and other assets, primarily from a $42.0 million payment to the U.K. tax authorities. The $67.6 million increase from the comparable period in the net cash inflow from other non-cash items is primarily due to a

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$16.8 million release of a fair value adjustment to inventory acquired from PARAGARD and a $34.4 million adjustment to deferred taxes due to tax reform.

Investing Cash Flow

Cash used in investing activities of $1,244.6 million in the first quarter of fiscal 2018 was driven by capital expenditures of $51.4 million, primarily to increase distribution and manufacturing capacity, and payments of $1,193.2 million related to acquisitions, primarily the acquisition of PARAGARD as discussed in Outlook above and in Note 2. Acquisitions.

Cash used in investing activities of $202.1 million in the first quarter of fiscal 2017 was driven by capital expenditures of $28.7 million, primarily to increase distribution and manufacturing capacity, and payments of $173.4 million related to acquisitions, primarily the acquisition of Wallace in the first quarter of fiscal 2017.

Financing Cash Flow

The changes in cash provided by financing activities primarily relate to borrowings and repayments of debt as well as the effects of share-based compensation awards. Cash provided by financing activities of $1,217.4 million in the first quarter of fiscal 2018 was driven by $1,672.8 million of proceeds from long term debt, partially offset by $445.8 million net repayments of debt and $10.5 million primarily for net taxes paid related to vested share-based compensation awards.

Cash provided by financing activities of $83.5 million in the first quarter of fiscal 2017 was driven by $91.1 million from net borrowings of debt, partially offset by $8.1 million for taxes paid related to vested share-based compensation awards.

The 2017 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 2017 Term Loan Agreement, consistent with the 2016 Credit Agreement. As defined, in both the 2017 Term Loan Agreement and the 2016 Credit Agreement, we are required to maintain an Interest Coverage Ratio of at least 3.00 to 1.00, and a Total Leverage Ratio of no higher than 3.75 to 1.00.

At January 31, 2018, we had $874.7 million available under the 2016 Credit Agreement. We are in compliance with our financial covenants including the Interest Coverage Ratio at 19.42 to 1.00 and the Total Leverage Ratio at 2.68 to 1.00 for both the 2017 Term Loan Agreement and the 2016 Credit Agreement.

Estimates and Critical Accounting Policies

Information regarding estimates and critical accounting policies is included in Management's Discussion and Analysis on Form 10-K for the fiscal year ended October 31, 2017.

Accounting Pronouncements

Information regarding new accounting pronouncements is included in Note 1 of the Consolidated Financial Statements.

Trademarks

Aquaform®, Avaira®, Avaira Vitality®, Biofinity®, MyDay® and Proclear® are registered trademarks of The Cooper Companies, Inc., its affiliates and/or subsidiaries. PC Technology™, FIPS™, and A Quality of Life Company™ are trademarks of The Cooper Companies, Inc., its affiliates and/or subsidiaries. The clariti® mark is a registered trademark of The Cooper Companies, Inc., its affiliates and/or subsidiaries worldwide except in the United States where the use of clariti® is licensed. PARAGARD® is a registered trademark of CooperSurgical, Inc.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk
Most of our operations outside the United States have their local currency as their functional currency. We are exposed to risks caused by changes in foreign exchange, principally our British pound sterling, euro, Japanese yen, Danish krone, Swedish krona and Australian dollar denominated debt and receivables denominated in currencies other than the United States dollar, and from operations in other foreign currencies. Although we may enter into foreign exchange agreements with financial institutions to reduce our exposure to fluctuations in foreign currency values relative to our debt or receivables obligations, these hedging transactions do not eliminate that risk entirely. We are also exposed to risks associated with changes in interest rates, as the interest rates on our revolving lines of credit and term loans may vary with the federal funds rate and Eurodollar rate. We may decrease this interest rate risk by hedging a portion of variable rate debt effectively converting it to fixed rate debt for varying periods. For additional detail, see Item 1A. Risk Factors and Note 1 and Note 11 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017.

On March 1, 2016, we entered into a syndicated Revolving Credit and Term Loan Agreement (2016 Credit Agreement) with Keybank as administrative agent. The agreement provides for a multicurrency revolving credit facility in an aggregate principal amount of $1.0 billion and a term loan facility in the aggregate principal amount of $830.0 million. The 2016 Credit Agreement replaced our previous credit agreement and funds from the new term loan were used to repay the outstanding amounts under the previous credit agreement, to partially repay our other outstanding term loans and for general corporate purposes. At January 31, 2018, we had $874.7 million available under the revolving credit facility and $830.0 million outstanding under the term loan.

On November 1, 2017, in connection with the PARAGARD acquisition, we entered into a new five-year, $1.425 billion, senior unsecured term loan agreement by and among the Company, the lenders party thereto and DNB Bank ASA, New York Branch, as administrative agent (2017 Term Loan Agreement) which matures on November 1, 2022. The Company used part of the facility to fund the PARAGARD acquisition and used the remainder of the funds to partially repay outstanding borrowings under our revolving credit agreement.
If interest rates were to increase or decrease by 1% or 100 basis points, quarterly interest expense would increase or decrease by approximately $6.0 million based on average debt outstanding for the first fiscal quarter of 2018.

See Note 5. Debt for additional information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on management's evaluation (with the participation of our Chief Executive Officer (our Principal Executive Officer) and Chief Financial Officer (our Principal Financial Officer)), as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

On November 1, 2017, the Company acquired PARAGARD. Management is reviewing and evaluating its internal control procedures and the design of those control procedures related to the PARAGARD acquisition and assessing when it will complete an evaluation and review of PARAGARD's internal controls over financial reporting.

Except as described above, there has been no change in our internal control over financial reporting that occurred during our first quarter of fiscal 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION
Item 1. Legal Proceedings

Since March 2015, over 50 putative class action complaints were filed by contact lens consumers alleging that contact lens manufacturers, in conjunction with their respective Unilateral Pricing Policy (UPP), conspired to reach agreements between each other and certain distributors and retailers regarding the prices at which certain contact lenses could be sold to consumers. The plaintiffs are seeking damages against CooperVision, Inc., other contact lens manufacturers, distributors and retailers, in various courts around the United States. In June 2015, all of the class action cases were consolidated and transferred to the United States District Court for the Middle District of Florida. In August 2017, CooperVision entered into a settlement agreement with the plaintiffs, without any admission of liability, to settle all claims against CooperVision. The Company recorded a settlement accrual of $3.0 million in the third quarter fiscal ended July 31, 2017. The settlement remains subject to Court approval.

The Company is involved in various lawsuits, claims and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters. The Company does not believe that the ultimate resolution of these proceedings or claims pending against it could have a material adverse effect on its financial condition or results of operations. At each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under ASC 450, Contingencies. Legal fees are expensed as incurred.
Item 1A. Risk Factors

Risk factors describing the major risks to our business can be found under Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017. Except for the risk factors set forth below, there have been no material changes in our risk factors from those previously discussed in our Form 10-K for the fiscal year October 31, 2017.

Tax Reform

On December 22, 2017, the U.S. President signed The Tax Cuts and Jobs Act (“2017 Act”) into law. Consistent with SEC guidance, the Company has made a reasonable estimate of the effects of the 2017 Act and recorded provisional income tax expense of $202.0 million in the financial statements this quarter. Compliance with the 2017 Act may require the collection of information not regularly produced within the Company, the use of estimates in our financial statements, and the exercise of significant judgment in accounting for its provisions. As regulations and guidance evolve with respect to the 2017 Act, and as we gather more information and perform additional analysis, our results may differ from previous estimates and may materially affect our financial position. For additional information regarding the 2017 Act, see Part 1, Item 1, Note 7, Income Taxes, of the Notes to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

We manage our businesses utilizing complex integrated software and hardware information technology operating systems that are regularly maintained and upgraded; an interruption or disruption to these systems could disrupt our business or force us to expend excessive costs.

We utilize complex integrated software and hardware operating systems, including enterprise resource planning and warehouse management systems, to support our business units and we have a continuous improvement strategy in place to keep our systems and overarching technology stable and in line with business needs and growth. Regular

upgrades of our computer hardware and software revisions are typical and expected. We employ controlled change management methodologies to plan, test and execute all such system upgrades and improvements, and we believe that we assign adequate staffing and other resources to projects to ensure successful implementation. However, we cannot assure that our systems will meet our future business needs or that upgrades will operate as designed. We

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cannot assure that there will not be associated excessive costs or disruptions in portions of our business in the course of our maintenance, support and/or upgrade of these systems.

We are in the midst of a multiyear process of implementing a new enterprise resource planning (ERP) system at CooperVision. Implementing a new ERP system is not only costly but complex and difficult. Implementing a new ERP system can negatively affect not only financial accounting and reporting processes but also external commercial activities such as order receipt and product delivery. There can be no assurance that we will successfully implement our new ERP system or that we will avoid these and other negative impacts from our implementation efforts.

The size and complexity of our information systems make such systems potentially vulnerable to service interruptions or to security breaches from inadvertent or intentional actions by our employees or vendors, or from attacks by malicious third parties. Such attacks are of ever-increasing levels of sophistication and are made by groups and individuals with a wide range of motives and expertise. While we have invested in the protection of data and information technology, there can be no assurance that our efforts will prevent or quickly identify service interruptions or security breaches. Any such interruption or breach of our systems could adversely affect our business operations and/or result in the loss of critical or sensitive confidential information or intellectual property, and could result in financial, legal, business and reputational harm to us. We maintain cyber liability insurance; however, this insurance may not be sufficient to cover the financial, legal, business or reputational losses that may result from an interruption or breach of our systems

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Issuer Purchases of Equity Securities
There was no share repurchase activity during the three-month period ended January 31, 2018.

The Share Repurchase Program was approved by the Company’s Board of Directors in December 2011 (2012 Share Repurchase Program). The program as amended in December 2012 and December 2013 provides authorization for a total of $500.0 million. In March 2017, the program was amended and approved by the Company's Board of Directors for an increase of $500.0 million, providing authorization for a total of $1.0 billion. Purchases under the 2012 Share Repurchase Program may be made from time-to-time on the open market at prevailing market prices or in privately negotiated transactions and are subject to a review of the circumstances in place at the time and will be made from time to time as permitted by securities laws and other legal requirements. This program has no expiration date and may be discontinued at any time.
At January 31, 2018, approximately $563.5 million remained authorized under the 2012 Share Repurchase Program.

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Item 6. Exhibits

Exhibit Number	Description
10.1	Loan Agreement, dated as of November 1, 2017, among The Cooper Companies, Inc., the lenders party thereto, and DNB Bank ASA, New York Branch, as administrative agent, incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed November 1, 2017.
11*	Calculation of (Loss) Earnings Per Share
31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
32.2	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350
101	The following materials from the Company's Quarterly Report on Form 10-Q for the three months periods ended January 31, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of (Loss) Income for the three months ended January 31, 2018 and 2017, (ii) Consolidated Statements of Comprehensive (Loss) Income for the three months ended January 31, 2018 and 2017, (iii) Consolidated Condensed Balance Sheets at January 31, 2018 and October 31, 2017, (iv) Consolidated Condensed Statements of Cash Flows for the three months ended January 31, 2018 and 2017 and (v) related notes to consolidated condensed financial statements.

* The information called for in this Exhibit is provided in Note 7. (Loss) Earnings Per Share to the Consolidated Condensed Financial Statements in this report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	The Cooper Companies, Inc. (Registrant)
Date: March 9, 2018	/s/ Albert G. White, III
	Albert G. White, III Executive Vice President, Chief Financial Officer and Chief Strategy Officer (Principal Financial Officer)
Date: March 9, 2018	/s/ Agostino Ricupati
	Agostino Ricupati Senior Vice President Finance and Tax and Chief Accounting Officer (Principal Accounting Officer)