COOPER COMPANIES INC
Form 10-Q
March 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For Quarterly Period Ended January 31, 2010

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

Commission File Number 1-8597

The Cooper Companies, Inc.

(Exact name of registrant as specified in its charter)

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

6140 Stoneridge Mall Road, Suite 590, Pleasanton,	**CA 94588**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

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

Common Stock, $.10 par value	**45,425,373 Shares**
Class	**Outstanding at February 28, 2010**

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except for earnings per share)

(Unaudited)

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

See accompanying notes.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Balance Sheets

(In thousands)

(Unaudited)

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

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

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

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

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Gain (Loss)

(In thousands)

(Unaudited)

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

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

Note 1. General

The Cooper Companies, Inc. (Cooper, we or the Company) develops, manufactures and markets healthcare products through its two business units:

- CooperVision (CVI) develops, manufactures and markets a broad range of contact lenses for the worldwide vision care market. Its leading products are disposable and planned replacement lenses.

- CooperSurgical (CSI) develops, manufactures and markets medical devices, diagnostic products and surgical instruments and accessories used primarily by gynecologists and obstetricians.

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

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

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

- Revenue recognition

- Allowance for doubtful accounts

- Net realizable value of inventory

- Valuation of goodwill

- Business combinations

Income taxes

Share-based compensation

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

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

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

During the fiscal first quarter of 2010, we recorded out-of-period adjustments primarily to increase accruals for rebates that were under-accrued in fiscal 2009. These out-of-period accruals were offset in part by a reduction in accrued compensation and income tax expense, resulting in a decrease in net income of $6.0 million in the fiscal first quarter of 2010. Based upon an evaluation of all relevant quantitative and qualitative factors, and after considering the provisions of ASC 270-10-45-16, *Accounting Changes in Interim Periods,* and ASC 250, *Accounting Changes and Error Corrections*, that incorporates SEC Staff Accounting Bulletin (SAB) No. 99, *Materiality*, and SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, we do not believe that the effect of the out-of-period adjustments is material to our estimated full-year 2010 financial results. We also do not believe that the out-of-period adjustments are material to any previously issued consolidated financial statements. Because the out-of-period adjustments are not material to any of the prior year s consolidated financial statements and are not expected to be material to our estimated full-year 2010 financial results, the out-of-period adjustments were recorded in our consolidated financial statements for the fiscal first quarter of 2010.

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

New Accounting Pronouncements

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

On November 1, 2009, the Company adopted the deferred portions of FASB ASC 820, *Fair Value Measurements and Disclosures*, for its non financial assets and liabilities that are recognized at fair value on a non recurring basis, including long-lived assets, goodwill, other intangible assets and exit liabilities. This guidance defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value, but does not expand the use of fair value to new accounting transactions. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, which amends ASC 820, *Fair Value Measurements and Disclosures*: *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends ASC 820 to add new requirements for disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

used, (3) the activity in level 3 fair value measurements and (4) the transfers between levels 1, 2 and 3 fair value measurements. ASU 2010-06 is effective for the first reporting period beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. The Company does not anticipate the adoption of ASU 2010-06, which is partially effective for the Company for the fiscal year beginning on November 1, 2010, will have a material impact on our consolidated financial statements.

In February 2010, the FASB issued ASU 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements.* This amendment removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The amendment in the ASU was effective for the Company upon issuance (February 24, 2010). The adoption of ASU 2010-09 had no effect on our consolidated financial statements.

On November 1, 2009, the Company adopted the FASB issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversion* (FSP APB 14-1). FSP APB 14-1, which was issued in May 2008, requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer s nonconvertible debt borrowing rate. As a result, the liability component would be recorded at a discount reflecting its below market coupon interest rate, and the liability component would be accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected in the results of operations. This change in methodology affects the calculations of net income and earnings per share, but will not increase the cash interest payments. FSP APB 14-1 was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Retrospective application to all periods presented is required and early adoption is prohibited. The convertible senior debentures that the Company issued in fiscal 2003 and subsequently repurchased in fiscal 2008 are within the scope of FSP APB 14-1. The Company has adjusted the reported amounts in its Consolidated Balance Sheet as of October 31, 2009 as follows:

Consolidated Balance Sheet at October 31, 2009

	As Reported	Adjustments	As Adjusted
		(In thousands)	
Additional paid-in capital	$ 1,053,662	$ 9,627	$ 1,063,289
Retained earnings	$ 500,078	$ (9,627)	$ 490,451

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 2. Restructuring Costs

2009 CooperVision Manufacturing Restructuring Plan

In the fiscal third quarter of 2009, CooperVision initiated a restructuring plan to relocate contact lens manufacturing from Norfolk, Virginia, and transfer part of its contact lens manufacturing from Adelaide, Australia, to existing manufacturing operations in Juana Diaz, Puerto Rico, and Hamble, UK (2009 CooperVision manufacturing restructuring plan). This plan is intended to better utilize CVI s manufacturing efficiencies and reduce its manufacturing expenses through a reduction in workforce of approximately 480 employees. The Norfolk plant manufactures about 7% of CooperVision s annual lens production; however, no additional hires are anticipated in Puerto Rico or the UK as part of this plan due to recent gains in manufacturing efficiencies.

The Company expects to complete restructuring activities in Adelaide, Australia, in our fiscal third quarter of 2010 and expects to complete restructuring activities in Norfolk, Virginia, in our fiscal first quarter of 2011.

We estimate that the total restructuring costs under this plan will be approximately $24 million, with about $17 million associated with assets, including accelerated depreciation and facility lease and contract termination costs, and about $7 million associated with employee benefit costs, including anticipated severance payments, termination benefit costs, retention bonus payouts and other similar costs. These costs will be reported as cost of sales or restructuring costs in our Consolidated Statements of Income.

In the fiscal first quarter of 2010, $2.3 million, including $0.6 million of employee benefit costs and $1.7 million of non-cash costs associated with assets are reported as $2.2 million in cost of sales and $0.1 million in restructuring costs. For the year ended October 31, 2009, total costs of $5.1 million including $3.6 million of employee benefit costs and $1.5 million of non-cash costs associated with assets were reported as $5.0 million in cost of sales and $0.1 million in restructuring costs.

	Balance at Beginning of Period	Additions Charged to Cost of Sales and Restructuring Costs	Payments	Balance at End of Period
		(In millions)		
Year Ended October 31, 2009				
Other current liabilities	$	$ 3.6	$ 0.6	$ 3.0
Accelerated depreciation and other		1.5	1.2	0.3
	$	$ 5.1	$ 1.8	$ 3.3
Fiscal Quarter Ended January 31, 2010				
Other current liabilities	$ 3.0	$ 0.7	$ 0.6	$ 3.1
Accelerated depreciation and other	0.3	1.6	1.6	0.3
	$ 3.3	$ 2.3	$ 2.2	$ 3.4

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Critical Activity Restructuring Plan

In the fiscal first quarter of 2009, CooperVision began a global restructuring plan to focus the organization on our most critical activities, refine our work processes and align costs with prevailing market conditions (Critical Activity restructuring plan). This restructuring plan involved the assessment of all locations activities, exclusive of direct manufacturing, and changes to streamline work processes. As a result of the Critical Activity restructuring plan, a number of positions were eliminated across certain business functions and geographic regions. The Company substantially completed the Critical Activity restructuring plan in our fiscal fourth quarter of 2009.

The total restructuring costs under this plan were $4.6 million, primarily severance and benefit costs, and are reported as cost of sales or restructuring costs in our Consolidated Statements of Income. In the fiscal first quarter of 2010, we reported $0.3 million in restructuring costs. In the year ended October 31, 2009, we reported $0.5 million in cost of sales and $3.8 million in restructuring costs. At January 31, 2010, the total accrued restructuring liability, recorded in other accrued liabilities, was $0.7 million:

	Balance at Beginning of Period	Additions Charged to Cost of Sales and Restructuring Costs	Payments	Balance at End of Period
		(In millions)		
Year Ended October 31, 2009	$	$ 4.3	$ 3.7	$ 0.6
Fiscal Quarter Ended January 31, 2010	$ 0.6	$ 0.3	$ 0.2	$ 0.7

The Company may, from time to time, decide to pursue additional restructuring activities that involve charges in future periods.

Note 3. Inventories

	January 31, 2010	October 31, 2009
	(In thousands)	
Raw materials	$ 45,762	$ 47,400
Work-in-process	7,924	6,122
Finished goods	198,156	207,324
	$ 251,842	$ 260,846

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

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 4. Intangible Assets

Goodwill

	CVI	CSI	Total
		(In thousands)	
Balance as of October 31, 2008	$ 1,044,062	$ 207,637	$ 1,251,699
Net reductions during the year ended October 31, 2009	(3,624)	(10)	(3,634)
Translation	8,832	132	8,964
Balance as of October 31, 2009	1,049,270	207,759	1,257,029
Net additions during the three-month period ended January 31, 2010		3,055	3,055
Translation	(5,261)	(56)	(5,317)
Balance as of January 31, 2010	$ 1,044,009	$ 210,758	$ 1,254,767

The Company performed its annual impairment test during the fiscal third quarter of 2009, and our analysis indicated that we had no impairment of goodwill. As described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2009, we will continue to monitor conditions and changes that could indicate that our recorded goodwill may be impaired.

Other Intangible Assets

	As of January 31, 2010		As of October 31, 2009	
	Gross Carrying Amount	Accumulated Amortization & Translation	Gross Carrying Amount	Accumulated Amortization & Translation
		(In thousands)		
Trademarks	$ 2,994	$ 1,020	$ 2,907	$ 979
Technology	94,732	45,881	91,279	43,846
Shelf space and market share	88,803	32,112	87,863	30,221
License and distribution rights and other	13,485	6,038	13,485	5,788
	200,014	$ 85,051	195,534	$ 80,834
Less accumulated amortization and translation	85,051		80,834	
Other intangible assets, net	$ 114,963		$ 114,700	

We estimate that amortization expense will be about $15.6 million per year in the five-year period ending October 31, 2014.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

Note 5. Debt

	January 31, 2010	October 31, 2009
	(In thousands)	
Short-term:		
Overdraft and other credit facilities	$ 15,119	$ 7,051
Current portion of long-term debt	4,021	2,793
	$ 19,140	$ 9,844
Long-term:		
Revolver	$ 378,800	$ 425,000
Senior notes	339,000	339,000
Capital lease	5,979	7,207
Other	399	423
	$ 724,178	$ 771,630

In November 2009, the Company entered into a $5.0 million overdraft facility for certain of our Asia Pacific subsidiaries. This facility is designed to replace the existing facility of approximately $3.0 million originating in April 2007. Both facilities are supported by a continuing and unconditional guaranty by the Company. The Company will pay all forms of indebtedness in the currency in which it is denominated for those certain subsidiaries. Interest expense is calculated on all outstanding balances based on an applicable base rate for each country plus a fixed spread common across all subsidiaries covered under the guaranty. At January 31, 2010, approximately $1.8 million was utilized.

Note 6. Derivative Instruments

We operate multiple foreign subsidiaries that manufacture and/or sell our products worldwide. As a result, our earnings, cash flow and financial position are exposed to foreign currency risk from foreign currency denominated receivables and payables, sales transactions, capital expenditures and net investment in certain foreign operations. Our policy is to minimize transaction, remeasurement and specified economic exposures with derivatives instruments such as foreign exchange forward contracts and cross currency swaps. The gains and losses on these derivatives are intended to at least partially offset the transaction gains and losses recognized in earnings. We do not enter into derivatives for speculative purposes. Under ASC 815, *Derivatives and Hedging* (ASC 815*)*, all derivatives are recorded on the balance sheet at fair value. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting.

Through the normal course of our business activities, the Company recognizes that it is exposed to foreign exchange risks. Our primary objective is to protect the USD value of future cash flows and minimize the volatility of reported earnings while strictly adhering to accounting principles generally accepted in the United States. To meet this objective, business exposures to foreign exchange risks must be identified, measured and minimized using the most effective and efficient methods to eliminate, reduce or transfer such exposures.

Exposures are reduced whenever possible by taking advantage of offsetting payable and receivable balances and netting net sales against expenses, also referred to as natural hedges. The Company employs the use of foreign currency derivative instruments to manage a portion of the remaining foreign exchange risk. While we designate our exposures under ASC 815 on a gross basis, foreign

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

currency derivatives may be used to protect against an exposure value resulting from forecasted non-functional currency denominated net sales and expenses. Our risk management objectives and the strategies for achieving those objectives depend on the type of exposure being hedged.

The Company is also exposed to risks associated with changes in interest rates, as the interest rate on our Senior Unsecured Revolving Line of Credit (Revolver) varies with the London Interbank Offered Rate. To mitigate this risk, we hedge portions of our variable rate debt by swapping those portions to fixed rates.

We only enter into derivative financial instruments with institutions that have an International Swap Dealers Association (ISDA) agreement in place. Our derivative financial instruments do not contain credit risk related contingent features such as call features or requirements for posting collateral. Although the Company and its counterparties have some right of set-off, all foreign exchange derivatives are displayed gross in the fair value tabular disclosure and accounted for as such in our Consolidated Condensed Balance Sheet. We adjust our foreign exchange forward contracts and cross currency swaps for credit risk on a per derivative basis. However, when applicable, we record interest rate derivatives as net in our Consolidated Condensed Balance Sheet, in accordance with ASC 815-10, but gross in the fair value tabular disclosure. When we net or set-off our interest rate derivative obligations, only the net asset or liability position will be credit affected. For the fiscal quarter ended January 31, 2010, and for the fiscal year ending October 31, 2009, all of our interest rate derivatives were in a liability position and, therefore, were not set-off in the Consolidated Balance Sheet. Since ISDA agreements are signed between the Company and each respective financial institution, netting is permitted on a per institution basis only. On an ongoing basis, we monitor counterparty credit ratings. We consider our credit non-performance risk to be minimal because we award and disperse derivatives business between multiple commercial institutions that have at least an investment grade credit rating.

Cash Flow Hedging

The Company is exposed to the effects of foreign exchange movements. Our strategy is to minimize enterprise risk by locking in all or a portion of the anticipated cash flows that are linked to accounting exposures such as non-functional currency intercompany payables/receivables, through derivative instruments. To execute this strategy, we hedge the specific identified foreign exchange risk exposure, thereby locking in the rate at which these forecasted transactions will be recorded and ultimately reduce earnings volatility related to the enterprise risk.

ASC 815 cash flow hedge accounting allows for the gains or losses on the change in fair value of the derivatives related to forecasted transactions to be recorded in Other Comprehensive Income (Loss) (OCI) until the underlying forecasted transaction occurs. However, this accounting treatment is limited to hedging specific transactions that can be clearly defined and specifically create risk to functional currency cash flow.

All sales and expenses with unrelated third parties not denominated in USD subject the Company to economic risk. We typically designate and document qualifying foreign exchange forward contracts related to certain forecasted intercompany sales and purchases associated with third party transactions, as cash flow hedges.

To reduce foreign currency exposure related to forecasted foreign currency denominated sales and purchases of product, the Company enters into foreign currency forward contracts; however, in fiscal 2010, we have not entered into any new forward contracts of this kind. In fiscal 2009, we entered into forward contracts of approximately $43.0 million in the fiscal fourth quarter, $40.0 million in the fiscal

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

third quarter, $250.0 million in the fiscal second quarter and none in the fiscal first quarter. These derivatives were accounted for as cash flow hedges under ASC 815 and were expected to be effective through their maturities. As of January 31, 2010, all outstanding cash flow hedging derivatives had maturities of less than 12 months. Immaterial amounts of ineffectiveness were recorded during the fiscal first quarter of 2009 and no ineffectiveness was recorded for the remainder of fiscal 2009.

Typical currencies traded are those which represent the largest risk for the Company, including but not limited to the British pound sterling, euro and Japanese yen. Hedge amounts vary by currency but typically fall below $10.0 million per month per currency. Hedges for each currency mature monthly to correspond with the payment cycles of the hedged relationships. To maintain a layered hedged position, additional hedges may be placed consistently throughout the year.

Each month during any given period, adjustments are made to the existing hedges by matching them with the actual cash flows that occurred in that month. Each hedge, therefore, will require that compensating trades be adjusted to match the actual flows of the underlying exposure.

The effective portion of the cash flow hedge contracts gains or losses resulting from changes in fair value of these hedges is initially reported as a component of accumulated OCI in stockholder s equity until the underlying hedged item is reflected in our Consolidated Statement of Income, at which time the effective amount in OCI is reclassified to either net sales or cost of sales in our Consolidated Statement of Income.

We record any ineffectiveness and any excluded components of the hedge immediately to other income or expense in our Consolidated Statement of Income. We calculate hedge effectiveness at a minimum each fiscal quarter. Monthly, we evaluate hedge effectiveness prospectively and retrospectively, excluding time value, using regression as well as other timing and probability criteria required by ASC 815.

In the event the underlying forecasted transaction does not occur within the designated hedge period, or it becomes probable that the forecasted transaction will not occur, the related gains and losses on the cash flow hedges are immediately reclassified from OCI to other income or expense in our Consolidated Statement of Income at that time. We expect to reclassify a loss of approximately $0.1 million to other expense over the next twelve months and a gain of approximately $2.0 million thereafter.

Balance Sheet Hedges

We manage the foreign currency risk associated with non-functional currency assets and liabilities using foreign exchange forward contracts with maturities of less than 24 months and cross currency swaps with maturities up to 36 months. As of January 31, 2010, all outstanding balance sheet hedging derivatives had maturities of less than 12 months. The change in fair value of these derivatives is recognized in other income or expense.

Monthly adjustments to the cash flow hedging program explained above require non-designated hedges to be placed when cash flow hedges are utilized faster or earlier than planned. This occurs regularly, and hedge amounts tend to be less than a few million dollars per affected relationship.

Other common exposures hedged are intercompany payables and receivables between entities. Such obligations are generally short-term in nature, often outstanding for less than 90 days. These types of exposures are hedged monthly and are typically less than $10.0 million per hedge.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

These derivative instruments do not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset gains and losses on the non-functional currency assets and liabilities being hedged.

Interest Rate Swaps

In fiscal 2007 and 2008, the Company entered into floating-to-fixed interest rate swaps to fix the floating rate on the Revolver. As of January 31, 2010, the swaps notional value totaled $375.0 million with maturities ranging from 2 months to 16 months and fixed rates between 2.40% and 4.95%. We qualified and designated these swaps under ASC 815 as cash flow hedges and recorded the offset of the cumulative fair market value (net of tax effect) to OCI in our Consolidated Condensed Balance Sheet.

Effectiveness testing of the hedge relationship and measurement to quantify ineffectiveness is performed at a minimum each fiscal quarter using the hypothetical derivative method. The swaps have been and are expected to remain highly effective for the life of the hedges. Effective amounts are reclassified to interest expense as the related hedged expense is incurred. The fair value of the outstanding swaps is shown in the Consolidated Condensed Balance Sheet and the Fair Value Measurements and Disclosures tables, below. Liabilities of $2.2 million and $2.6 million were recorded and attributable to accrued interest as of January 31, 2010 and October 31, 2009, respectively. We expect to reclassify $7.2 million from OCI to interest expense in our Consolidated Statements of Income over the next 12 months and $0.5 million thereafter.

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(Unaudited)

The fair value of derivative instruments in our Consolidated Condensed Balance Sheet as of January 31, 2010 and October 31, 2009 was as follows:

	Derivative Assets			Derivative Liabilities		
	Balance Sheet Location	Fair Value 1/31/2010	Fair Value 10/31/2009	Balance Sheet Location	Fair Value 1/31/2010	Fair Value 10/31/2009
			(In millions)			
Derivatives designated as hedging instruments under ASC 815						
Interest rate contracts	Prepaid expense & other current assets	$	$	Other current liabilities	$ 5.0	$ 4.1
Interest rate contracts	Other assets			Accrued pension liability and other	2.7	6.3
Foreign exchange contracts	Prepaid expense & other current assets	7.0	9.4	Other current liabilities	5.1	11.1
Foreign exchange contracts	Other assets		0.9	Accrued pension liability and other		0.7
Total derivatives designated as hedging instruments under ASC 815		$ 7.0	$ 10.3		$ 12.8	$ 22.2
Derivatives not designated as hedging instruments under ASC 815						
Interest rate contracts	Prepaid expense & other current assets	$	$	Other current liabilities	$	$
Interest rate contracts	Other assets			Accrued pension liability and other		
Foreign exchange contracts	Prepaid expense & other current assets	0.4	0.8	Other current liabilities	2.6	0.7
Foreign exchange contracts	Other assets			Accrued pension liability and other		
Total derivatives not designated as hedging instruments under ASC 815		$ 0.4	$ 0.8		$ 2.6	$ 0.7
Total derivatives		$ 7.4	$ 11.1		$ 15.4	$ 22.9

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements, Continued

(Unaudited)

The Effect of Derivative Instruments on the Consolidated Statement of Income

For the Three Months Ended January 31, 2010 and 2009

(in millions)

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative Ineffectiveness	Amount of Gain or (Loss) Recognized in Income Due to Ineffectiveness		Location of Gain or (Loss) Recognized in Income and Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income and Excluded from Effectiveness Testing
	2010	2009		2010	2009		2010	2009		