

COOPER INDUSTRIES LTD

Form 10-Q

August 03, 2005

Table of Contents

**10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

(Mark One)

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

For the quarter ended June 30, 2005

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 1-31330

Cooper Industries, Ltd.

(Exact name of registrant as specified in its charter)

Bermuda

98-0355628

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

600 Travis, Suite 5800

Houston, Texas 77002

(Address of principal executive offices)

(Zip Code)

(713) 209-8400

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of registrant's common stock outstanding as of June 30, 2005 was 92,617,784 Class A common shares that are held by the public and 8,499,687 Class A common shares and 54,810,129 Class B common shares that are held by the issuer's wholly-owned subsidiaries.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

Item 4. Controls and Procedures

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Item 6. Exhibits

Signatures

Exhibit Index

Computation of Ratios of Earnings to Fixed Charges

Consent of Bates White, LLC

Certification of CEO pursuant to Section 302

Certification of CFO pursuant to Section 302

Certification of CEO pursuant to Section 906

Certification of CFO pursuant to Section 906

Table of Contents**PART I FINANCIAL INFORMATION**

Item 1. Financial Statements
COOPER INDUSTRIES, LTD.
CONSOLIDATED INCOME STATEMENTS

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	(in millions, where applicable)			
Revenues	\$1,189.2	\$1,109.3	\$2,334.0	\$2,173.9
Cost of sales	814.7	775.2	1,602.3	1,517.2
Selling and administrative expenses	232.9	212.0	460.4	420.4
Operating earnings	141.6	122.1	271.3	236.3
Interest expense, net	17.7	17.2	35.5	34.3
Income before income taxes	123.9	104.9	235.8	202.0
Income taxes	26.6	21.0	50.7	40.4
Net income	\$ 97.3	\$ 83.9	\$ 185.1	\$ 161.6
Income per common share:				
Basic	\$ 1.05	\$.91	\$ 1.99	\$ 1.74
Diluted	\$ 1.02	\$.89	\$ 1.94	\$ 1.70
Cash dividends per common share	\$.37	\$.35	\$.74	\$.70

The accompanying notes are an integral part of these statements.

Table of Contents

**COOPER INDUSTRIES, LTD.
CONSOLIDATED BALANCE SHEETS**

	June 30, 2005	December 31, 2004
	(in millions)	
ASSETS		
Cash and cash equivalents	\$ 537.0	\$ 652.8
Receivables	879.2	820.9
Inventories	590.5	523.0
Deferred income taxes and other current assets	181.5	221.9
Total current assets	2,188.2	2,218.6
Property, plant and equipment, less accumulated depreciation	685.9	696.4
Goodwill	2,100.5	2,142.3
Deferred income taxes and other noncurrent assets	280.6	283.5
Total assets	\$5,255.2	\$5,340.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt	\$ 6.4	\$ 97.6
Accounts payable	408.2	350.7
Accrued liabilities	461.0	488.8
Accrual for discontinued operations	191.3	225.1
Current maturities of long-term debt	591.5	665.4
Total current liabilities	1,658.4	1,827.6
Long-term debt	694.9	698.6
Postretirement benefits other than pensions	169.0	173.3
Other long-term liabilities	345.6	354.8
Total liabilities	2,867.9	3,054.3
Common stock, \$.01 par value	0.9	0.9
Capital in excess of par value	445.9	446.2
Retained earnings	2,087.3	1,971.6
Accumulated other nonowner changes in equity	(146.8)	(132.2)
Total shareholders' equity	2,387.3	2,286.5
Total liabilities and shareholders' equity	\$5,255.2	\$5,340.8

The accompanying notes are an integral part of these statements.

Table of Contents

COOPER INDUSTRIES, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	June 30,	
	2005	2004
	(in millions)	
Cash flows from operating activities:		
Net income	\$ 185.1	\$ 161.6
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	57.5	57.5
Deferred income taxes	5.3	18.2
Restructuring charge payments	(0.4)	(3.7)
Changes in assets and liabilities: ⁽¹⁾		
Receivables	(74.9)	(83.3)
Inventories	(69.4)	(25.8)
Accounts payable and accrued liabilities	14.0	27.7
Other assets and liabilities, net	64.2	67.1
Net cash provided by operating activities	181.4	219.3
Cash flows from investing activities:		
Capital expenditures	(47.9)	(39.0)
Cash paid for acquired businesses	(2.4)	(10.1)
Proceeds from sales of property, plant and equipment and other	4.3	7.9
Net cash used in investing activities	(46.0)	(41.2)
Cash flows from financing activities:		
Proceeds from issuances of debt		2.0
Repayments of debt	(117.9)	(1.5)
Dividends	(69.4)	(65.1)
Subsidiary purchase of parent shares	(77.2)	(164.9)
Activity under employee stock plans and other	41.2	24.1
Net cash used in financing activities	(223.3)	(205.4)
Effect of exchange rate changes on cash and cash equivalents	(27.9)	(2.5)
Decrease in cash and cash equivalents	(115.8)	(29.8)
Cash and cash equivalents, beginning of period	652.8	463.7
Cash and cash equivalents, end of period	\$ 537.0	\$ 433.9

⁽¹⁾ Net of the effects of acquisitions and translation.

The accompanying notes are an integral part of these statements.

-4-

Table of Contents

**COOPER INDUSTRIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 1. Accounting Policies

Basis of Presentation - The consolidated financial statements of Cooper Industries, Ltd., a Bermuda company (Cooper), have been prepared in accordance with generally accepted accounting principles in the United States.

The financial information presented as of any date other than December 31 has been prepared from the books and records without audit. Financial information as of December 31 has been derived from Cooper's audited financial statements, but does not include all disclosures required by generally accepted accounting principles. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial information for the periods indicated, have been included. For further information regarding Cooper's accounting policies, refer to the Consolidated Financial Statements and related notes for the year ended December 31, 2004 included in Part IV of Cooper's 2004 Annual Report on Form 10-K.

In December 2004, the Financial Accounting Standards Board issued FASB Statement 123(R), *Share-Based Payment*, which is a revision of SFAS No. 123. For Cooper, the revised statement is effective January 1, 2006. Statement 123(R) must be applied to new awards and previously granted awards that are not fully vested on the effective date. Cooper adopted SFAS No. 123 on January 1, 2003 using the prospective transition method which applied only to awards granted, modified or settled after the adoption date. Accordingly, compensation cost for some previously granted unvested awards that were not recognized under SFAS No. 123 will be recognized under Statement 123(R). Had we adopted Statement 123(R) in prior periods the impact of that standard would approximate the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in Note 2 of the Notes to the Consolidated Financial Statements.

Note 2. Stock-Based Compensation

Under Cooper stock option plans, officers, directors and key employees may be granted options to purchase Cooper's common stock at no less than 100% of the market price on the date the option is granted. Options generally become exercisable ratably over a three-year period commencing one year from the grant date and have a maximum term of ten years. The plans also provide for the granting of performance-based stock awards and restricted stock awards to certain key executives that generally vest over periods ranging from three to five years. Cooper also has an Employee Stock Purchase Plan which provides employees an option to purchase common stock. There is currently no outstanding offering under the Employee Stock Purchase Plan.

Effective January 1, 2003, Cooper adopted Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), as amended. Cooper utilized the prospective method of adoption. Cooper accounts for stock-based compensation awards granted, modified or settled prior to January 1, 2003 using the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations (APB No. 25). SFAS No. 123 provides an alternative fair value based method for recognizing stock-based compensation in which compensation expense is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model. The fair value of restricted stock and performance-based awards granted was measured at the market price on the grant date. Stock-based compensation expense was \$16.6 million and \$11.6 million during the six months ended June 30, 2005 and 2004, respectively.

Table of Contents

The following table presents pro forma income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each period.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	(in millions)			
Net income, as reported	\$97.3	\$83.9	\$185.1	\$161.6
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	6.2	4.4	10.2	6.9
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(5.6)	(6.4)	(8.1)	(9.0)
Pro forma net income	\$97.9	\$81.9	\$187.2	\$159.5
Earnings per share:				
Basic as reported	\$1.05	\$.91	\$ 1.99	\$ 1.74
Basic pro forma	\$1.05	\$.89	\$ 2.01	\$ 1.72
Diluted as reported	\$1.02	\$.89	\$ 1.94	\$ 1.70
Diluted pro forma	\$1.03	\$.87	\$ 1.96	\$ 1.68

Note 3. Acquisitions

In March 2004, Cooper acquired a manufacturer of specification and commercial grade lighting fixtures for \$10.1 million. In November 2004, Cooper acquired a U.K. based manufacturer of visual and audible alarms and public address speakers for \$38.5 million.

Note 4. Inventories

	June 30,	December
	2005	31,
	2004	
	(in millions)	
Raw materials	\$209.6	\$ 185.2
Work-in-process	152.0	118.6
Finished goods	336.5	320.2
Perishable tooling and supplies	14.2	13.2
	712.3	637.2
Allowance for excess and obsolete inventory	(58.7)	(58.9)
Excess of current standard costs over LIFO costs	(63.1)	(55.3)
Net inventories	\$590.5	\$ 523.0

Table of Contents**Note 5. Shareholders Equity**

At June 30, 2005, 92,617,784 Class A common shares, \$.01 par value were issued and outstanding (excluding the 8,499,687 Class A common shares held by wholly-owned subsidiaries as discussed below) compared to 92,543,660 Class A common shares, \$.01 par value (excluding the 3,700,200 Class A common shares held by wholly-owned subsidiaries) at December 31, 2004. During the first six months of 2005, Cooper issued 1,207,424 Class A common shares primarily in connection with employee incentive and benefit plans and Cooper's dividend reinvestment program. During the first six months of 2005, Cooper's wholly-owned subsidiaries purchased 1,133,300 Class A common shares for \$77.2 million under Cooper's share repurchase plan and a wholly-owned subsidiary purchased 3,669,037 previously unissued Class A common shares at fair market value. The share purchases are recorded by Cooper's wholly-owned subsidiaries as an investment in its parent company that is eliminated in consolidation. During the first six months of 2005, 2,850 Class A common shares held by wholly-owned subsidiaries were issued in connection with employee incentive plans, leaving 8,499,687 Class A common shares held by wholly-owned subsidiaries at June 30, 2005.

A wholly-owned subsidiary also owns all the issued and outstanding Class B common shares. The subsidiary's investment in the Class B common shares is eliminated in consolidation. If at any time a dividend is declared and paid on the Class A common shares, a like dividend shall be declared and paid on the Class B common shares in an equal amount per share.

Note 6. Segment Information

	Revenues			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	(in millions)			
Electrical Products	\$1,010.6	\$ 928.9	\$1,978.9	\$1,819.6
Tools & Hardware	178.6	180.4	355.1	354.3
Total revenues	\$1,189.2	\$1,109.3	\$2,334.0	\$2,173.9

-7-

Table of Contents

	Operating Earnings			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	(in millions)			
Electrical Products	\$ 148.2	\$ 129.4	\$ 283.6	\$ 250.2
Tools & Hardware	15.8	12.6	30.5	24.4
Segment operating earnings	164.0	142.0	314.1	274.6
General Corporate expenses	22.4	19.9	42.8	38.3
Total operating earnings	141.6	122.1	271.3	236.3
Interest expense, net	17.7	17.2	35.5	34.3
Income before income taxes	\$ 123.9	\$ 104.9	\$ 235.8	\$ 202.0

Note 7. Pension and Other Postretirement Benefits

	Pension Benefits			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	(in millions)			
Components of net periodic benefit cost:				
Service cost	\$ 4.2	\$ 3.7	\$ 8.7	\$ 8.1
Interest cost	10.0	10.6	20.4	20.7
Expected return on plan assets	(12.6)	(11.9)	(25.4)	(23.4)
Amortization of prior service cost	0.1	0.1	0.3	0.3
Recognized actuarial loss	2.5	1.9	4.8	3.6
Net periodic benefit cost	\$ 4.2	\$ 4.4	\$ 8.8	\$ 9.3

Table of Contents

	Other Postretirement Benefits			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	(in millions)			
Components of net periodic benefit cost:				
Service cost	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
Interest cost	1.7	2.0	3.5	4.1
Recognized actuarial gain	(0.7)	(0.7)	(1.5)	(1.4)
Net periodic benefit cost	\$ 1.1	\$ 1.4	\$ 2.1	\$ 2.8

Note 8. Income Taxes

The effective tax rate was 21.5% for the six months ended June 30, 2005 and 20.0% for the six months ended June 30, 2004. The rate increase is primarily related to increased projected taxable earnings in 2005 without a corresponding increase in projected tax benefits.

In April 2005, Cooper received an Examination Report from the Internal Revenue Service, which included a challenge to the treatment of gains and interest deductions claimed on Cooper's 2000 and 2001 federal income tax returns, relating to transactions involving government securities. If the proposed adjustment is upheld, it would require that Cooper pay approximately \$26.5 million in taxes plus accrued interest. Interest will continue to accrue until the matter is resolved. Cooper believes these transactions were properly reported on its federal income tax returns in accordance with applicable tax laws and regulations in effect during the period involved. Cooper is challenging these adjustments vigorously. While the outcome of proceedings of this type cannot be predicted with certainty, management believes that the ultimate outcome of this matter will not have a material impact on Cooper's consolidated financial position, results of operations, or cash flows.

Note 9. Net Income Per Common Share

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	(in millions)			
Basic:				
Net income applicable to common stock	\$97.3	\$83.9	\$185.1	\$161.6
Weighted average common shares outstanding	93.0	92.2	93.0	92.9
Diluted:				
Net income applicable to common stock	\$97.3	\$83.9	\$185.1	\$161.6
Weighted average common shares outstanding	93.0	92.2	93.0	92.9
Incremental shares from assumed conversions:				
Options, performance-based stock awards and other employee awards	2.4	2.2	2.5	2.2
Weighted average common shares and common share equivalents	95.4	94.4	95.5	95.1

Table of Contents

Options and employee awards are not considered in the calculations if the effect would be antidilutive.

Note 10. Net Income and Other Nonowner Changes in Equity

The components of net income and other nonowner changes in equity, net of related taxes, were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	(in millions)			
Net income	\$97.3	\$ 83.9	\$185.1	\$161.6
Foreign currency translation gains (losses)	(5.4)	(13.1)	(13.5)	1.8
Change in fair value of derivatives	0.2	(0.1)	(1.1)	1.3
Net income and other nonowner changes in equity	\$92.1	\$ 70.7	\$170.5	\$164.7

Note 11. Restructuring

During the fourth quarter of 2003, Cooper recorded net restructuring charges of \$16.9 million, or \$13.6 million after taxes (\$.14 per diluted common share). This represented costs associated with restructuring projects undertaken in 2003 of \$18.4 million, partially offset by a \$1.5 million adjustment of estimates for restructuring projects initiated in 2002.

The most significant action included in the charges was an announcement of the closing of Cooper Wiring Devices manufacturing operations in New York City. This action will include the withdrawal from a multiple-employer pension plan. Cooper recorded a \$12.5 million obligation as an estimate of Cooper's portion of unfunded benefit obligations of the plan. The remaining \$5.9 million charge primarily represents severance for announced employment reductions at several locations. The 2003 net impact of the charges was \$16.4 million on the Electrical Products segment, \$(0.4) million on the Tools & Hardware segment and \$0.9 million related to General Corporate. As of June 30, 2005, Cooper had paid a total of \$5.3 million for these actions, all of which was for severance costs.

A total of 114 salaried and 150 hourly personnel were eliminated as a result of these actions, and all personnel were terminated as of December 31, 2004. The majority of the severance obligation was paid by the first half of 2004. The multiple-employer pension obligation is expected to be paid over 15 years, beginning in 2005.

During the fourth quarter of 2002, Cooper committed to (1) the closure of ten manufacturing facilities, (2) further employment reductions to appropriately size Cooper's workforce to market conditions, and (3) the write-off of assets related to production rationalization activities. These actions were taken as a part of Cooper management's ongoing assessment of required production capacity in consideration of current demand levels. In connection with these commitments, certain production capacity and related assets were sold, outsourced, discontinued or moved to a lower cost environment. Cooper recorded a provision for these announced actions of \$39.1 million (\$15.0 million of which was non-cash), or \$29.8 million after taxes (\$.32 per diluted common share). Of this amount, \$24.0 million (\$11.0 million of which was non-cash) was associated with the Electrical Products segment, \$12.7 million (\$3.4 million of which was non-cash) was associated with the Tools & Hardware segment and the remainder was related to General Corporate.

Table of Contents

The following table reflects activity related to the fourth quarter 2002 restructuring charge.

	Number of Employees	Accrued Severance	Facilities Closure and Rationalization
		(\$ in millions)	
Balance at December 31, 2002	1,022	\$ 16.2	\$ 5.8
Employees terminated	(982)		
Cash expenditures		(14.9)	(2.9)
Reversal of excess accruals	(9)	(0.9)	(0.6)
Balance at December 31, 2003	31	0.4	2.3
Employees terminated	(31)		
Cash expenditures		(0.4)	(1.7)
Balance at December 31, 2004			0.6
Cash expenditures			
Balance at June 30, 2005		\$	\$ 0.6

A total of 435 salaried and 771 hourly positions were eliminated as a result of the planned closure and rationalization actions. Of those planned position eliminations, approximately 600 positions were replaced ultimately as a result of Cooper's ongoing efforts to relocate production capacity to lower cost locations.

See Restructuring Charges in Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Note 12. Charge Related to Discontinued Operations

In October 1998, Cooper sold its Automotive Products business to Federal-Mogul Corporation (Federal-Mogul). These discontinued businesses (including the Abex product line obtained from Pneumo-Abex Corporation (Pneumo) in 1994) were operated through subsidiary companies, and the stock of those subsidiaries was sold to Federal-Mogul pursuant to a Purchase and Sale Agreement dated August 17, 1998 (1998 Agreement). In conjunction with the sale, Federal-Mogul indemnified Cooper for certain liabilities of these subsidiary companies, including liabilities related to the Abex product line and any potential liability that Cooper may have to Pneumo pursuant to a 1994 Mutual Guaranty Agreement between Cooper and Pneumo. On October 1, 2001, Federal-Mogul and several of its affiliates filed a Chapter 11 bankruptcy petition and indicated that Federal-Mogul may not honor the indemnification obligations to Cooper. As of the date of this filing, Federal-Mogul had not rejected the 1998 Agreement, which includes the indemnification to Cooper. If Federal-Mogul rejects the 1998 Agreement, Cooper will be relieved of its future obligations under the 1998 Agreement, including specific indemnities relating to payment of taxes and certain obligations regarding insurance for its former Automotive Products businesses. To the extent Cooper is obligated to Pneumo for any asbestos-related claims arising from the Abex product line (Abex Claims), Cooper has rights, confirmed by Pneumo, to significant insurance for such claims. Based on information provided by representatives of Federal-Mogul and recent claims experience, from August 28, 1998 through June 30, 2005, a total of 135,971 Abex Claims were filed, of which 94,292 claims have been resolved leaving 41,679 Abex Claims pending at June 30, 2005, that are the responsibility of Federal-Mogul. During the three months ended June 30, 2005, 1,756 claims were filed and 6,931 claims were resolved. Since August 28, 1998, the average indemnity payment for resolved Abex Claims was \$2,130 before insurance. A total of \$72.4 million was spent on defense costs for the period August 28, 1998 through June 30, 2005. Historically, existing insurance coverage has provided 50% to 80% of the total defense and indemnity payments for Abex Claims.

With the assistance of independent advisors, Bates White, LLC, in the fourth quarter of 2001 Cooper completed a thorough analysis of its potential exposure for asbestos liabilities in the event Federal-Mogul rejects the 1998

Agreement. Based on Cooper's analysis of its contingent liability exposure resulting from Federal-Mogul's bankruptcy, Cooper concluded that an additional fourth-quarter 2001 discontinued operations provision of \$30 million after-tax, or \$.32 per share, was appropriate to reflect the potential net

-11-

Table of Contents

impact of this issue. The analysis included a review of the twenty-year history of Abex Claims; the average indemnity payments for resolved claims; the jurisdictions in which claims had been filed; Bates White, LLC data on the incidence of asbestos exposure and diseases in various industries; existing insurance coverage including the insurance recovered by Pneumo and Federal-Mogul for pre-bankruptcy claims and the contractual indemnities. Assumptions were made regarding future claim filings and indemnity payments, and, based on the advisor's data, the expected population of persons exposed to asbestos in particular industries. All of this data was used to determine a reasonable expectation of future claims, indemnity payments and insurance coverage. Cooper is preserving its rights as a creditor for breach of Federal-Mogul's indemnification to Cooper and its rights against all Federal-Mogul subsidiaries. Cooper intends to take all actions to seek a resolution of the indemnification issues and future handling of the Abex-related claims within the Federal-Mogul bankruptcy proceedings.

Cooper's fourth-quarter 2001 analysis of the contingent liability exposure assumed that the liabilities would be settled within the Federal-Mogul bankruptcy proceedings. This analysis assumed that representatives of Federal-Mogul, its bankruptcy committees and the future claimants (the Representatives) would reach similar conclusions regarding the potential future liabilities and insurance recoveries as Cooper did based on the Bates White, LLC analysis. Throughout 2003, Cooper worked towards resolution of the indemnification issues and future handling of the Abex-related claims within the Federal-Mogul bankruptcy proceedings. This included negotiations with the Representatives regarding participation in Federal-Mogul's proposed 524(g) asbestos trust. Based on the status of negotiations in 2004, Cooper concluded that it was probable that Federal-Mogul will reject the 1998 Agreement. Cooper also concluded that the Representatives would require any negotiated settlement through the Federal-Mogul bankruptcy to be at the high end of the Bates White, LLC liability analysis and with substantially lower insurance recovery assumptions and higher administrative costs.

While Cooper believes that the insurance has significant additional value, extensive litigation with the insurance carriers and other parties that have access to the insurance may be required to receive recoveries and there is risk that court decisions could reduce the value of the recoveries. Additionally, the assumptions on liability payments could prove inaccurate over time. If Cooper is unable to reach a settlement with the Representatives and the 1998 Agreement is rejected, Cooper would be required to reflect an accrual for the asbestos liability and a related receivable for the probable insurance recoveries.

During late February and early March 2004, Cooper reassessed the accrual required based on the then current status of the negotiations with the Representatives and the liability and insurance receivable that would be required to be recorded if this matter is not settled within the Federal-Mogul bankruptcy. Cooper concluded that resolution within the Federal-Mogul proposed 524(g) asbestos trust would likely be within the range of the liabilities, net of insurance recoveries, that Cooper would accrue if this matter were not settled within the Federal-Mogul bankruptcy. Accordingly, Cooper recorded a \$126.0 million after-tax discontinued operations charge, net of a \$70.9 million income tax benefit, in the fourth quarter of 2003.

Cooper has continued discussions with the Representatives, but to date has been unable to reach a satisfactory conclusion. At this time, the exact manner in which this issue will be resolved is not known. The accrual for potential liabilities related to the Automotive Products sale and the Federal-Mogul bankruptcy was \$191.3 million at June 30, 2005 and \$225.1 million at December 31, 2004. Insurance recoveries are recorded as an increase in the accrual when cash is received, which may be an extended period from the date when a claim or defense costs are paid. During 2005, Cooper has engaged Bates White, LLC to update its analysis and assist Cooper in evaluating analyses prepared by the Representatives and their advisors and advise Cooper on accounting and reporting practices.

Table of Contents**Note 13. Consolidating Financial Information**

Prior to January 1, 2005, Cooper fully and unconditionally guaranteed the registered debt securities of Cooper Industries, Inc. (Cooper Ohio), a wholly-owned indirect subsidiary. Effective January 1, 2005, Cooper Industries, LLC, a wholly-owned indirect subsidiary, became the successor issuer of Cooper Ohio's registered debt securities as a result of a merger of Cooper Ohio into Cooper Industries, LLC. Cooper and certain principal operating subsidiaries fully and unconditionally guarantee, on a joint and several basis, the registered debt securities of Cooper Industries, LLC. The following condensed consolidating financial information is included so that separate financial statements of Cooper Industries, LLC or Cooper Ohio are not required to be filed with the Securities and Exchange Commission. The consolidating financial statements present investments in subsidiaries using the equity method of accounting. Intercompany investments in the Class A and Class B common shares are accounted for using the cost method.

Consolidating Income Statements
Three Months Ended June 30, 2005
(in millions)

	Cooper	Cooper Industries, LLC	Guaranteeing Subsidiaries	Other Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$	\$ 811.0	\$ 408.6	\$ (30.4)	\$ 1,189.2
Cost of sales		0.2	575.9	269.0	(30.4)	814.7
Selling and administrative expenses	2.5	2.0	144.7	83.7		232.9
Interest expense, net	(0.4)	13.4	(0.7)	5.4		17.7
Equity in earnings of subsidiaries, net of tax	124.3	42.8	28.8	69.0	(264.9)	
Intercompany income (expense)	(1.7)	(26.8)	(55.4)	107.3	(23.4)	
Income before income taxes	120.5	0.4	64.5	226.8	(288.3)	123.9
Income tax expense (benefit)		(7.9)	(4.4)	38.9		26.6
Net income	\$ 120.5	\$ 8.3	\$ 68.9	\$ 187.9	\$ (288.3)	\$ 97.3

Three Months Ended June 30, 2004
(in millions)

	Cooper	Cooper Ohio	Other Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$ 73.3	\$ 1,041.0	\$ (5.0)	\$ 1,109.3
Cost of sales		0.2	48.9	(5.0)	775.2
Selling and administrative expenses	2.7	26.8	182.5		212.0
Interest expense, net	(0.3)	12.1	5.4		17.2
Equity in earnings of subsidiaries, net of tax	88.0	103.1	41.0	(232.1)	
Intercompany income (expense)	(1.5)	(77.6)	79.1		
Income before income taxes	83.9	11.0	242.1	(232.1)	104.9
Income tax expense (benefit)		(30.0)	51.0		21.0

Net income	\$83.9	\$ 41.0	\$ 191.1	\$(232.1)	\$ 83.9
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-13-

Table of Contents

Consolidating Income Statements
Six Months Ended June 30, 2005
(in millions)

	Cooper	Cooper Industries, LLC	Guaranteeing Subsidiaries	Other Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$	\$1,562.6	\$832.0	\$ (60.6)	\$2,334.0
Cost of sales	0.2	0.2	1,112.3	550.2	(60.6)	1,602.3
Selling and administrative expenses	4.7	3.8	283.2	168.7		460.4
Interest expense, net	(0.9)	26.9	(1.7)	11.2		35.5
Equity in earnings of subsidiaries, net of tax	238.0	49.7	110.6	129.4	(527.7)	
Intercompany income (expense)	(2.5)	(26.8)	(166.2)	242.0	(46.5)	
Income (loss) before income taxes	231.5	(8.0)	113.2	473.3	(574.2)	235.8
Income tax expense (benefit)		(21.5)	(16.1)	88.3		50.7
Net income	\$231.5	\$ 13.5	\$ 129.3	\$385.0	\$ (574.2)	\$ 185.1

Six Months Ended June 30, 2004
(in millions)

	Cooper	Cooper Ohio	Other Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$ 140.3	\$2,043.7	\$ (10.1)	\$2,173.9
Cost of sales	0.6	92.3	1,434.4	(10.1)	1,517.2
Selling and administrative expenses	4.7	52.7	363.0		420.4
Interest expense, net	(0.5)	23.9	10.9		34.3
Equity in earnings of subsidiaries, net of tax	169.1	226.5	75.7	(471.3)	
Intercompany income (expense)	(2.7)	(203.9)	206.6		
Income (loss) before income taxes	161.6	(6.0)	517.7	(471.3)	202.0
Income tax expense (benefit)		(81.7)	122.1		40.4
Net income	\$161.6	\$ 75.7	\$ 395.6	\$ (471.3)	\$ 161.6

Table of Contents

Consolidating Balance Sheets
June 30, 2005
(in millions)

	Cooper	Cooper Industries, LLC	Guaranteeing Subsidiaries	Other Subsidiaries	Consolidating Adjustments	Total
Cash and cash equivalents	\$ 26.8	\$	\$ 219.8	\$ 290.4	\$	\$ 537.0
Receivables	0.1		531.7	347.4		879.2
Inventories			351.0	239.5		590.5
Deferred income taxes and other current assets	0.4	100.0	98.5	(17.4)		181.5
Total current assets	27.3	100.0	1,201.0	859.9		2,188.2
Property, plant and equipment, less accumulated depreciation			388.1	297.8		685.9
Goodwill			1,018.0	1,082.5		2,100.5
Investment in subsidiaries	4,758.5	939.4	4,818.9	2,368.0	(12,884.8)	
Investment in parent			2,490.4	279.3	(2,769.7)	
Intercompany accounts receivables	564.5	875.2		612.5	(2,052.2)	
Intercompany notes receivable	46.0		62.3	5,877.2	(5,985.5)	
Deferred income taxes and other noncurrent assets		123.9	31.8	124.9		280.6
Total assets	\$5,396.3	\$2,038.5	\$10,010.5	\$11,502.1	\$(23,692.2)	\$5,255.2
Short-term debt	\$	\$	\$	\$ 6.4	\$	\$ 6.4
Accounts payable	34.4	17.4	195.1	161.3		408.2
Accrued liabilities	3.4	30.0	304.9	122.7		461.0
Accrual for discontinued operations		191.3				191.3
Current maturities of long-term debt		229.0		362.5		591.5
Total current liabilities	37.8	467.7	500.0	652.9		1,658.4
Long-term debt		685.2	8.0	1.7		694.9

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Intercompany accounts payables			1,688.6	363.6	(2,052.2)	
Intercompany notes payable	178.7	462.9	5,235.5	108.4	(5,985.5)	
Other long-term liabilities		128.0	273.6	113.0		514.6
Total liabilities	216.5	1,743.8	7,705.7	1,239.6	(8,037.7)	2,867.9
Class A common stock	1.0				(0.1)	0.9
Class B common stock	0.5				(0.5)	
Subsidiary common stock				258.4	(258.4)	
Capital in excess of par value	3,183.6		498.6	6,396.5	(9,632.8)	445.9
Retained earnings	2,151.4	411.2	1,962.9	3,927.6	(6,365.8)	2,087.3
Accumulated other nonowner changes in equity	(156.7)	(116.5)	(156.7)	(320.0)	603.1	(146.8)
Total shareholders equity	5,179.8	294.7	2,304.8	10,262.5	(15,654.5)	2,387.3
Total liabilities and shareholders equity	\$5,396.3	\$2,038.5	\$10,010.5	\$11,502.1	\$(23,692.2)	\$5,255.2

-15-

Table of Contents

Consolidating Balance Sheets
December 31, 2004
(in millions)

	Cooper	Cooper Ohio	Other Subsidiaries	Consolidating Adjustments	Total
Cash and cash equivalents	\$ 111.5	\$ 246.1	\$ 295.2	\$	\$ 652.8
Receivables		15.0	805.9		820.9
Inventories			523.0		523.0
Deferred income taxes and other current assets	1.3	215.0	5.6		221.9
Total current assets	112.8	476.1	1,629.7		2,218.6
Property, plant and equipment, less accumulated depreciation		34.5	661.9		696.4
Goodwill			2,142.3		2,142.3
Investment in subsidiaries	2,785.8	4,796.1	193.5	(7,775.4)	
Investment in parent		2,245.5	202.2	(2,447.7)	
Intercompany accounts receivable	514.0		681.9	(1,195.9)	
Intercompany notes receivable	25.6	21.3	3,899.6	(3,946.5)	
Deferred income taxes and other noncurrent assets		112.6	170.9		283.5
Total assets	\$3,438.2	\$7,686.1	\$9,582.0	\$(15,365.5)	\$5,340.8
Short-term debt	\$	\$	\$ 97.6	\$	\$ 97.6
Accounts payable	32.5	21.1	297.1		350.7
Accrued liabilities	2.9	130.6	355.3		488.8
Accrual for discontinued operations		225.1			225.1
Current maturities of long-term debt		229.0	436.4		665.4
Total current liabilities	35.4	605.8	1,186.4		1,827.6
Long-term debt		688.3	10.3		698.6
Intercompany accounts payable		1,195.9		(1,195.9)	
Intercompany notes payable	135.7	3,763.9	46.9	(3,946.5)	
Other long-term liabilities		253.2	274.9		528.1
Total liabilities	171.1	6,507.1	1,518.5	(5,142.4)	3,054.3
Class A common stock	0.9				0.9
Class B common stock	0.5			(0.5)	
Subsidiary common stock			137.0	(137.0)	
Capital in excess of par value	2,882.2	12.1	7,252.0	(9,700.1)	446.2

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Retained earnings	350.0	1,263.8	773.1	(415.3)	1,971.6
Accumulated other nonowner changes in equity	33.5	(96.9)	(98.6)	29.8	(132.2)
Total shareholders equity	3,267.1	1,179.0	8,063.5	(10,223.1)	2,286.5
Total liabilities and shareholders equity	\$3,438.2	\$7,686.1	\$9,582.0	\$(15,365.5)	\$5,340.8

-16-

Table of Contents

Consolidating Statements of Cash Flows
Six Months Ended June 30, 2005
(in millions)

	Cooper	Cooper Industries, LLC	Guaranteeing Subsidiaries	Other Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	\$ (2.1)	\$ (69.7)	\$ 13.0	\$ 286.6	\$ (46.4)	\$ 181.4
Cash flows from investing activities:						
Capital expenditures			(26.5)	(21.4)		(47.9)
Cash paid for acquired businesses				(2.4)		(2.4)
Investment in affiliates	(6.3)		(33.7)		40.0	
Loans to affiliates	(46.0)		(61.5)	(43.0)	150.5	
Repayments of loans from affiliates	25.6				(25.6)	
Dividends from subsidiaries			19.0		(19.0)	
Other		1.5	0.3	2.5		4.3
Net cash provided by (used in) investing activities	(26.7)	1.5	(102.4)	(64.3)	145.9	(46.0)
Cash flows from financing activities:						
Repayments of debt				(117.9)		(117.9)
Borrowings from affiliates	43.0			107.5	(150.5)	
Repayments of loans to affiliates				(25.6)	25.6	
Other intercompany financing activities	6.6	68.2	31.1	(105.9)		
Dividends	(69.4)					(69.4)
Dividends paid to affiliates	(46.4)			(19.0)	65.4	
Subsidiary purchase of parent shares	10.3		(10.3)	(77.2)		(77.2)
Issuance of stock				40.0	(40.0)	
Employee stock plan activity and other			41.2			41.2
Net cash provided by (used in) financing activities	(55.9)	68.2	62.0	(198.1)	(99.5)	(223.3)

Effect of exchange rate changes on cash and cash equivalents			(27.9)		(27.9)
Increase (decrease) in cash and cash equivalents	(84.7)	(27.4)	(3.7)		(115.8)
Cash and cash equivalents, beginning of period	111.5	247.2	294.1		652.8
Cash and cash equivalents, end of period	\$ 26.8	\$ 219.8	\$ 290.4	\$	\$ 537.0

Table of Contents

Consolidating Statements of Cash Flows
Six Months Ended June 30, 2004
(in millions)

	Cooper	Cooper Ohio	Other Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	\$ (3.8)	\$ (53.8)	\$ 276.9	\$	\$ 219.3
Cash flows from investing activities:					
Capital expenditures		(10.4)	(28.6)		(39.0)
Cash paid for acquired businesses			(10.1)		(10.1)
Intercompany sale (purchase) of investment in parent		109.5	(109.5)		
Intercompany sale (purchase) of investment in subsidiaries		(182.1)	182.1		
Investment in affiliates	(3.8)			3.8	
Loans to affiliates	(34.1)	(3.7)	(67.7)	105.5	
Repayments of loans from affiliates			84.5	(84.5)	
Dividends from subsidiaries	134.0	3.3		(137.3)	
Other		0.7	7.2		7.9
Net cash provided by (used in) investing activities	96.1	(82.7)	57.9	(112.5)	(41.2)
Cash flows from financing activities:					
Proceeds from issuances of debt			2.0		2.0
Repayments of debt			(1.5)		(1.5)
Borrowings from affiliates	67.7		37.8	(105.5)	
Repayments of loans to affiliates	(132.1)		47.6	84.5	
Other intercompany financing activities	1.9	172.1	(174.0)		
Dividends	(65.1)				(65.1)
Dividends paid to affiliates			(137.3)	137.3	
Subsidiary purchase of parent shares		(110.3)	(54.6)		(164.9)
Employee stock plan activity and other		24.1	3.8	(3.8)	24.1
Net cash provided by (used in) financing activities	(127.6)	85.9	(276.2)	112.5	(205.4)
Effect of exchange rate changes on cash and cash equivalents			(2.5)		(2.5)
Increase (decrease) in cash and cash equivalents	(35.3)	(50.6)	56.1		(29.8)
	96.4	257.2	110.1		463.7

Cash and cash equivalents,
beginning of period

Cash and cash equivalents, end of
period

\$ 61.1

\$ 206.6

\$ 166.2

\$

\$ 433.9

-18-

Table of Contents**Item 2. Management's Discussion and Analysis of Financial
Condition
and Results of Operations****Results of Operations****Three Months Ended June 30, 2005 Compared With Three Months Ended June 30, 2004**

Net income for the second quarter of 2005 was \$97.3 million on revenues of \$1,189.2 million compared with 2004 second quarter net income of \$83.9 million on revenues of \$1,109.3 million. Second quarter diluted earnings per share increased 15% to \$1.02 from \$.89 in 2004.

Revenues:

Revenues for the second quarter of 2005 increased 7% compared to the second quarter of 2004. The impact of foreign currency translation increased reported revenues by approximately 1% for the quarter.

Electrical Products segment revenues for the second quarter of 2005 increased 9% compared to the second quarter of 2004. Foreign currency translation increased revenues by approximately 1% for the quarter. All of Cooper's Electrical Products businesses experienced revenue growth during the quarter. Continued positive trends in industrial, commercial and residential construction were the primary drivers of the improvement, as well as solid retail performance against easy comparables in last year's second quarter. However, overall non-residential project construction remained soft. Sales of power transmission and distribution equipment also remained strong.

Tools & Hardware segment revenues for the second quarter of 2005 decreased 1% from the second quarter of 2004. Foreign currency translation increased revenues by approximately 2% for the quarter. Tools & Hardware segment 2005 revenues were below 2004 levels due to lower shipments of assembly equipment and lower sales of industrial power tools, partially offset by continued improvement in hand tool sales to both the industrial and retail markets.

Costs and Expenses:

Cost of sales, as a percentage of revenues, was 68.5% for the second quarter of 2005 compared to 69.9% for the comparable 2004 quarter. The decrease in the cost of sales percentage was primarily due to favorable business mix in the Tools segment, continued productivity improvements and adequate pricing to offset material, energy and transportation cost increases.

Electrical Products segment cost of sales, as a percentage of revenues, was 68.1% for the second quarter of 2005 compared to 69.1% for the second quarter of 2004. The decrease in cost of sales percentage resulted from productivity improvements, revenue leverage and price increases to offset inflationary pressures. Tools & Hardware segment cost of sales, as a percentage of revenues, was 70.4% for the second quarter of 2005 compared to 73.2% for the second quarter of 2004. The decrease in cost of sales percentage was due to productivity initiatives, pricing actions and a favorable sales mix from declines in lower margin assembly equipment shipments.

Selling and administrative expenses, as a percentage of revenues, for the second quarter of 2005 were 19.6% compared to 19.1% for the second quarter of 2004. The increase is due to higher stock-based compensation expenses, increased audit and Sarbanes-Oxley Act compliance costs and further investment in growth initiatives.

Electrical Products segment selling and administrative expenses, as a percentage of revenues, for the second quarter of 2005 were 17.3% compared to 16.9% for the second quarter of 2004. The increase in selling and administrative expenses percentage is primarily due to increased stock-based compensation expense and investments in international and other sales and marketing initiatives.

Table of Contents

Tools & Hardware segment selling and administrative expenses, as a percentage of revenues, for the second quarter of 2005 were 20.8% compared to 19.8% for the second quarter of 2004. The increase in the selling and administrative expenses percentage is primarily due to decreased leverage from lower volumes and increased stock-based compensation costs.

Interest expense, net for the second quarter of 2005 increased \$0.5 million from the 2004 second quarter primarily as a result of higher average interest rates, partially offset by additional interest earned on higher average cash balances. Average debt balances were \$1.32 billion and \$1.33 billion and average interest rates were 6.0% and 5.6% for the second quarter of 2005 and 2004, respectively.

Operating Earnings:

Electrical Products segment second quarter 2005 operating earnings increased 15% to \$148.2 million from \$129.4 million for the same quarter of last year. The increase was a result of revenue growth, productivity improvements and adequate price increases to offset inflationary pressures on key product and distribution costs.

Tools & Hardware segment second quarter 2005 operating earnings increased 25% to \$15.8 million compared to \$12.6 million in the second quarter of 2004. The increase primarily reflects the impact of a favorable sales mix, improved productivity and efficiency and pricing improvements.

General Corporate expense increased \$2.5 million to \$22.4 million during the second quarter of 2005 compared to \$19.9 million during the second quarter of 2004. This increase primarily resulted from increased stock-based compensation expenses, increased audit and Sarbanes-Oxley Act compliance expenses and costs associated with executive management team additions and costs for transition of the Chief Executive Officer.

Income Taxes:

The effective tax rate was 21.5% for the three months ended June 30, 2005 and 20.0% for the three months ended June 30, 2004. The increase is primarily related to increased projected taxable earnings in 2005, without a corresponding increase in projected tax benefits.

Table of Contents

Six Months Ended June 30, 2005 Compared With Six Months Ended June 30, 2004

Net income for the first six months of 2005 was \$185.1 million on revenues of \$2,334.0 million compared with 2004 first half net income of \$161.6 million on revenues of \$2,173.9 million. First half diluted earnings per share increased 14% to \$1.94 from \$1.70 in 2004.

Revenues:

Revenues for the first six months of 2005 increased 7% compared to the first six months of 2004. The impact of foreign currency translation increased revenues by approximately 1% for the first half of the year.

Electrical Products segment revenues for the first six months of 2005 increased approximately 9% compared to the first half of 2004. Foreign currency translation contributed approximately 1% to the revenue increase. All of Cooper's Electrical Products businesses experienced revenue growth during the first six months of the year. Sales growth was a result of positive market environments driven by industrial, commercial and residential construction as well as activity from the utility and petro-chemical industries. Price increases in response to inflationary cost pressures also contributed to revenue growth. Overall non-residential project construction remained soft.

Tools & Hardware segment revenues for the first six months of 2005 were comparable to the first half of 2004. Foreign currency translation increased revenues by approximately 2% in the first six months of 2005. Increases in sales of hand tools and price increases were essentially offset by declines in assembly equipment and industrial power tools. Industrial, retail and international markets provided growth for hand tools. Lower activity levels from the automotive industry resulted in assembly equipment sales declines.

Costs and Expenses:

Cost of sales, as a percentage of revenues, was 68.7% for the first six months of 2005 compared to 69.8% for the comparable 2004 period. The decrease in the cost of sales percentage was primarily a result of increased leverage from higher revenues, favorable sales growth mix and productivity improvements. Overall, pricing actions were estimated to be close to adequate to offset increases in key materials, energy and transportation costs.

Electrical Products segment cost of sales, as a percentage of revenues, was 68.2% for the first six months of 2005 compared to 69.1% for the first half of 2004. The decrease in the cost of sales percentage was primarily a result of productivity initiatives, continued benefit from global sourcing initiatives and improved leverage. Tools & Hardware segment cost of sales, as a percentage of revenues, was 70.6% for the first half of 2005 compared to 73.1% for the same period of 2004. The decrease in cost of sales percentage reflects a favorable sales mix, cost structure alignment and productivity improvements.

Selling and administrative expenses, as a percentage of revenues, for the first six months of 2005 were 19.7% compared to 19.3% for the first half of 2004. The increase is due to higher stock-based compensation costs, increased audit and Sarbanes-Oxley Act compliance expenses and further investments in selling and marketing growth initiatives.

Electrical Products segment selling and administrative expenses, as a percentage of revenues, for the first six months of 2005 were 17.5% compared to 17.2% for the first half of 2004. The increase in selling and administrative expenses percentage is primarily due to increased stock-based compensation costs and investment in growth initiatives.

Tools & Hardware segment selling and administrative expenses, as a percentage of revenues, for the first six months of 2005 were 20.8% compared to 20.0% for the first six months of 2004. The increase in the selling and administrative expenses percentage is primarily due to increased incentive-based compensation expenses and globalization initiatives.

Table of Contents

Interest expense, net for the first six months of 2005 increased \$1.2 million from the 2004 first six months primarily as a result of higher average interest rates and slightly higher average debt balances, partially offset by additional interest earned on higher average cash balances. Average debt balances were \$1.36 billion and \$1.33 billion and average interest rates were 5.9% and 5.6% for the first six months of 2005 and 2004, respectively.

Operating Earnings:

Electrical Products segment first half 2005 operating earnings increased 13% to \$283.6 million from \$250.2 million for the same period of last year. The increase was primarily due to the combination of revenue increases and productivity improvement initiatives.

Tools & Hardware segment first half 2005 operating earnings increased 25% to \$30.5 million compared to \$24.4 million in the same period of 2004. The increase reflects favorable sales mix, benefits from pricing actions, productivity improvements and product cost reductions.

General Corporate expense increased \$4.5 million to \$42.8 million during the first six months of 2005 compared to \$38.3 million during the same period of 2004. This increase primarily resulted from the incremental impact of stock-based compensation costs, Sarbanes-Oxley Act compliance costs and executive management team additions and costs for transition of the Chief Executive Officer.

In the 2005 third quarter, Cooper began a series of broad based actions to improve the productivity of the Company's selling and administrative and other functions. These activities will include the redefinition of various corporate and operational roles to improve the efficiency of a range of support activities and organizational structures. Costs to execute these projects, net of related savings, in the range of \$0.07 to \$0.10 per share are expected to be incurred during the second half of 2005.

Restructuring:

During the fourth quarter of 2003, Cooper recorded net restructuring charges of \$16.9 million, or \$13.6 million after taxes (\$.14 per diluted common share). This represented costs associated with restructuring projects undertaken in 2003 of \$18.4 million, partially offset by a \$1.5 million adjustment of estimates for restructuring projects initiated in 2002.

The most significant action included in the charges was an announcement of the closing of Cooper Wiring Devices manufacturing operations in New York City. This action will include the withdrawal from a multiple-employer pension plan. Cooper recorded a \$12.5 million obligation as an estimate of Cooper's portion of unfunded benefit obligations of the plan. The remaining \$5.9 million charge primarily represents severance for announced employment reductions at several locations. The 2003 net impact of the charges was \$16.4 million on the Electrical Products segment, \$(0.4) million on the Tools & Hardware segment and \$0.9 million related to General Corporate. As of June 30, 2005, Cooper had paid a total of \$5.3 million for these actions, all of which was for severance costs.

A total of 114 salaried and 150 hourly personnel were eliminated as a result of these actions. The multiple-employer pension obligation is expected to be paid over 15 years beginning in 2005. Cooper estimates the annual savings from the personnel reductions was approximately \$6 million, (net of additional employees added in lower-cost regions) with most of the savings beginning in the first quarter of 2004. The savings from the withdrawal from the multiple-employer pension plan are approximately \$1 million per year and are expected to begin in 2006. The majority of the eliminated costs previously were reflected as cost of sales.

During the fourth quarter of 2002, Cooper committed to (1) the closure of ten manufacturing facilities, (2) further employment reductions to appropriately size Cooper's workforce to market conditions, and (3) the write-off of assets related to production rationalization activities. These actions were taken as a

Table of Contents

part of Cooper management's ongoing assessment of required production capacity in consideration of the current demand levels. In connection with these commitments, certain production capacity and related assets were sold, outsourced, discontinued or moved to a lower cost environment. Cooper recorded a provision for these announced actions of \$39.1 million (\$15.0 million of which was non-cash), or \$29.8 million after taxes (\$.32 per diluted common share). Of this amount, \$24.0 million (\$11.0 million of which was non-cash) was associated with the Electrical Products segment, \$12.7 million (\$3.4 million of which was non-cash) was associated with the Tools & Hardware segment and the remainder was related to General Corporate. During 2003, Cooper reduced estimates of the cost related to those actions by \$1.5 million.

The following table reflects activity related to the fourth quarter 2002 restructuring charge.

	Number of Employees	Accrued Severance	Facilities Closure and Rationalization
		(\$ in millions)	
Balance at December 31, 2002	1,022	\$ 16.2	\$ 5.8
Employees terminated	(982)		
Cash expenditures		(14.9)	(2.9)
Reversal of excess accruals	(9)	(0.9)	(0.6)
Balance at December 31, 2003	31	0.4	2.3
Employees terminated	(31)		
Cash expenditures		(0.4)	(1.7)
Balance at December 31, 2004			0.6
Cash expenditures			
Balance at June 30, 2005		\$	\$ 0.6

A total of 435 salaried and 771 hourly positions were eliminated as a result of the planned closure and rationalization actions. Of those position eliminations, approximately 600 positions were replaced ultimately as a result of Cooper's ongoing efforts to relocate production capacity to lower cost locations. Substantially all of the closure and rationalization activities were initiated and completed by the end of 2003. The expenditures related to the 2002 restructuring charge were funded from cash provided by operating activities.

Cooper estimates that the earnings impact in 2003 from these actions was approximately \$10 million in pretax savings, the majority of which benefited the second half of that year. The initial savings were realized from personnel reductions that principally impacted selling and administrative expenses and lower costs of sales. Cooper estimates that incremental savings of \$25.0 to \$30.0 million were realized in 2004, largely reflected as lower cost of sales.

Income Taxes:

The effective tax rate was 21.5% for the six months ended June 30, 2005 and 20.0% for the six months ended June 30, 2004. The increase is primarily related to increased projected taxable earnings in 2005 without a corresponding increase in projected tax benefits.

Liquidity and Capital Resources**Liquidity:**

Cooper's operating working capital (defined as receivables and inventories less accounts payable) increased \$68 million during the first six months of 2005. The increase included a \$58 million increase in receivables and a \$68 million increase in inventories, partially offset by a \$58 million increase in accounts payable, which were all driven by increased sales volume and actions to improve customer service. However, operating working capital turnover (defined as annualized revenues divided by average quarterly operating working capital) for the first six months of 2005 of 4.5 turns increased from 4.4 turns in the same period of 2004 and was primarily due to revenues

growing at a higher rate than operating working capital.

-23-

Table of Contents

Cash provided by operating activities was \$181 million for the first six months of 2005. This cash, plus \$116 million of cash and cash equivalents and \$41 million of cash received from employee stock activity were used to fund capital expenditures of \$48 million, dividends of \$69 million, debt repayments of \$118 million and share purchases of \$77 million during the first half of 2005.

Cash provided by operating activities was \$219 million during the first six months of 2004. This cash, plus an additional \$30 million of cash and cash equivalents and \$24 million of cash received from employee stock activity were primarily used to fund capital expenditures of \$39 million, an acquisition of \$10 million, dividends of \$65 million and share purchases of \$165 million.

In connection with acquisitions accounted for as purchases, Cooper records, to the extent appropriate, accruals for the costs of closing duplicate facilities, severing redundant personnel and integrating the acquired businesses into existing Cooper operations. Cash flows from operating activities are reduced by the amounts expended against the various accruals established in connection with each acquisition. Spending against these accruals was \$0.9 million and \$3.0 million during the six months ended June 30, 2005 and 2004, respectively.

Cooper is continuing to focus on initiatives to maximize cash flows. Cooper currently anticipates a continuation of its long-term ability to annually generate approximately \$200 million in cash flow available for acquisitions, debt repayments and common stock repurchases.

As discussed in Note 12 of Notes to the Consolidated Financial Statements, Cooper is continuing discussions with the Representatives of Federal-Mogul, its bankruptcy committees and the future claimants regarding settlement of Cooper's contingent liabilities related to the Automotive Products sale to Federal-Mogul. It is likely that if a settlement is reached, the settlement would involve a cash contribution. Cooper anticipates that any settlement cash contribution amounts would be funded from operating cash flows and existing cash.

Capital Resources:

Cooper has targeted a 35% to 45% debt-to-total capitalization ratio and intends to utilize cash flows to maintain a debt-to-total capitalization ratio within this range. Excess cash flows are utilized to fund acquisitions or to purchase shares of Cooper common stock. Cooper's debt-to-total capitalization ratio was 35.1% at June 30, 2005, 39.0% at December 31, 2004 and 38.7% at June 30, 2004.

At June 30, 2005 and December 31, 2004, Cooper had short-term debt of \$6.4 million and \$97.6 million, respectively and no commercial paper outstanding.

Cooper's practice is to back up its short-term debt balance with a combination of cash and committed credit facilities. At June 30, 2005 and December 31, 2004, Cooper had cash and cash equivalents of \$537.0 million and \$652.8 million, respectively. At June 30, 2005, Cooper had a \$500 million committed credit facility which matures in November 2009. Short-term debt to the extent not backed up by cash, reduces the amount of additional liquidity provided by the committed credit facility.

The credit facility agreement is not subject to termination based on a decrease in Cooper's debt ratings or a material adverse change clause. The principal financial covenants in the agreement limit Cooper's debt-to-total capitalization ratio to 60% and require Cooper to maintain a minimum earnings before interest expense, income taxes, depreciation and amortization to interest ratio of 3 to 1. Cooper is in compliance with all covenants set forth in the credit facility agreement.

Cooper's access to the commercial paper market could be adversely affected by a change in the credit ratings assigned to its commercial paper. Should Cooper's access to the commercial paper market be adversely affected due to a change in its credit ratings, Cooper would rely on a combination of available cash

Table of Contents

and its committed credit facility to provide short-term funding. The committed credit facility does not contain any provision which makes its availability to Cooper dependent on Cooper's credit ratings.

In the 2005 second half, Cooper may refinance a portion of the 300 million Euro bond issuance, which matures in October, 2005. In addition, \$229 million of Cooper's second series medium-term notes will mature in the second half of 2005. Requirements for debt maturities will be funded from operating cash flows, existing cash, debt refinancings and, if necessary, commercial paper issuances.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

As of June 30, 2005, there have been no material changes to Cooper's off-balance sheet arrangements and contractual obligations as described in its Annual Report on Form 10-K for the year ended December 31, 2004.

Backlog

Sales backlog represents the dollar amount of all firm open orders for which all terms and conditions pertaining to the sale have been approved such that a future sale is reasonably expected. Sales backlog by segment was as follows:

	June 30,	
	2005	2004
	(in millions)	
Electrical Products	\$378.9	\$330.1
Tools & Hardware	63.8	86.4
	\$442.7	\$416.5

Private Securities Litigation Reform Act Safe Harbor Statement

This Form 10-Q includes certain forward-looking statements. The forward-looking statements reflect Cooper's expectations, objectives and goals with respect to future events and financial performance, and are based on assumptions and estimates which Cooper believes are reasonable. Forward-looking statements include, but are not limited to, statements regarding the facilities closure and production rationalization plan and cost-reduction programs, potential liability exposure resulting from Federal-Mogul Corporation's (Federal-Mogul) bankruptcy filing, and any statements regarding future revenues, cost and expenses, earnings, earnings per share, margins, cash flows and capital expenditures. Cooper wishes to caution readers not to put undue reliance on these statements and that actual results could differ materially from anticipated results. Important factors which may affect the actual results include, but are not limited to, the resolution of Federal-Mogul's bankruptcy proceedings, political developments, market and economic conditions, changes in raw material and energy costs, industry competition, the net effects of Cooper's cost-control and productivity improvement programs, the timing and net effects of facility closures and the magnitude of any disruptions from such closures, the successful implementation of Cooper's strategic initiatives, changes in mix of products sold, mergers and acquisitions and their integration into Cooper, the timing and amount of any share repurchases, changes in financial markets including foreign currency rate fluctuations and changing legislation and regulations including changes in tax law, tax treaties or tax regulations. The forward-looking statements contained in this report are intended to qualify for the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended.

Item 4. Controls and Procedures

As of the end of the period covered by this report, Cooper's management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of Cooper's disclosure controls and procedures. Based on that

Table of Contents

evaluation, Cooper's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the disclosure controls and procedures are effective. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

Cooper is executing a multi-year plan of implementing an Enterprise Business System (EBS) globally. To date, approximately one-third of Cooper's global operations are functioning on the new system. Implementing an EBS system on a global basis involves significant changes in business processes. The implementation is phased, which reduces the risks associated with making these changes. In addition, Cooper is taking the necessary steps to monitor and maintain appropriate internal controls during the implementations.

-26-

Table of Contents**PART II OTHER INFORMATION**

Item 1. Legal Proceedings

Cooper is subject to various suits, legal proceedings and claims that arise in the normal course of business. While it is not feasible to predict the outcome of these matters with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on Cooper's financial statements.

In October 1998, Cooper sold its Automotive Products business to Federal-Mogul Corporation (Federal-Mogul). These discontinued businesses (including the Abex product line obtained from Pneumo-Abex Corporation (Pneumo) in 1994) were operated through subsidiary companies, and the stock of those subsidiaries was sold to Federal-Mogul pursuant to a Purchase and Sale Agreement dated August 17, 1998 (1998 Agreement). In conjunction with the sale, Federal-Mogul indemnified Cooper for certain liabilities of these subsidiary companies, including liabilities related to the Abex product line and any potential liability that Cooper may have to Pneumo pursuant to a 1994 Mutual Guaranty Agreement between Cooper and Pneumo. On October 1, 2001, Federal-Mogul and several of its affiliates filed a Chapter 11 bankruptcy petition and indicated that Federal-Mogul may not honor the indemnification obligations to Cooper. As of the date of this filing, Federal-Mogul had not rejected the 1998 Agreement, which includes the indemnification to Cooper. If Federal-Mogul rejects the 1998 Agreement, Cooper will be relieved of its future obligations under the 1998 Agreement, including specific indemnities relating to payment of taxes and certain obligations regarding insurance for its former Automotive Products businesses. To the extent Cooper is obligated to Pneumo for any asbestos-related claims arising from the Abex product line (Abex Claims), Cooper has rights, confirmed by Pneumo, to significant insurance for such claims. Based on information provided by representatives of Federal-Mogul and recent claims experience, from August 28, 1998 through June 30, 2005, a total of 135,971 Abex Claims were filed, of which 94,292 claims have been resolved leaving 41,679 Abex Claims pending at June 30, 2005, that are the responsibility of Federal-Mogul. During the three months ended June 30, 2005, 1,756 claims were filed and 6,931 claims were resolved. Since August 28, 1998, the average indemnity payment for resolved Abex Claims was \$2,130 before insurance. A total of \$72.4 million was spent on defense costs for the period August 28, 1998 through June 30, 2005. Historically, existing insurance coverage has provided 50% to 80% of the total defense and indemnity payments for Abex Claims.

With the assistance of independent advisors, Bates White, LLC, in the fourth quarter of 2001 Cooper completed a thorough analysis of its potential exposure for asbestos liabilities in the event Federal-Mogul rejects the 1998 Agreement. Based on Cooper's analysis of its contingent liability exposure resulting from Federal-Mogul's bankruptcy, Cooper concluded that an additional fourth-quarter 2001 discontinued operations provision of \$30 million after-tax, or \$.32 per share, was appropriate to reflect the potential net impact of this issue. The analysis included a review of the twenty-year history of Abex Claims; the average indemnity payments for resolved claims; the jurisdictions in which claims had been filed; Bates White, LLC data on the incidence of asbestos exposure and diseases in various industries; existing insurance coverage including the insurance recovered by Pneumo and Federal-Mogul for pre-bankruptcy claims and the contractual indemnities. Assumptions were made regarding future claim filings and indemnity payments, and, based on the advisor's data, the expected population of persons exposed to asbestos in particular industries. All of this data was used to determine a reasonable expectation of future claims, indemnity payments and insurance coverage. Cooper is preserving its rights as a creditor for breach of Federal-Mogul's indemnification to Cooper and its rights against all Federal-Mogul subsidiaries. Cooper intends to take all actions to seek a resolution of the indemnification issues and future handling of the Abex-related claims within the Federal-Mogul bankruptcy proceedings.

Cooper's fourth-quarter 2001 analysis of the contingent liability exposure assumed that the liabilities would be settled within the Federal-Mogul bankruptcy proceedings. This analysis assumed that representatives of Federal-Mogul, its bankruptcy committees and the future claimants (the Representatives) would reach similar conclusions regarding the potential future liabilities and insurance recoveries as Cooper did based on the Bates White, LLC analysis. Throughout 2003, Cooper worked

Table of Contents

towards resolution of the indemnification issues and future handling of the Abex-related claims within the Federal-Mogul bankruptcy proceedings. This included negotiations with the Representatives regarding participation in Federal-Mogul's proposed 524(g) asbestos trust. Based on the status of the negotiations in 2004, Cooper concluded that it was probable that Federal-Mogul will reject the 1998 Agreement. Cooper also concluded that the Representatives would require any negotiated settlement through the Federal-Mogul bankruptcy to be at the high end of the Bates White, LLC liability analysis and with substantially lower insurance recovery assumptions and higher administrative costs.

While Cooper believes that the insurance has significant additional value, extensive litigation with the insurance carriers and other parties that have access to the insurance may be required to receive recoveries and there is risk that court decisions could reduce the value of the recoveries. Additionally, the assumptions on liability payments could prove inaccurate over time. If Cooper is unable to reach a settlement with the Representatives and the 1998 Agreement is rejected, Cooper would be required to reflect an accrual for the asbestos liability and a related receivable for the probable insurance recoveries.

During late February and early March 2004, Cooper reassessed the accrual required based on the then current status of the negotiations with the Representatives and the liability and insurance receivable that would be required to be recorded if this matter is not settled within the Federal-Mogul bankruptcy. Cooper concluded that resolution within the Federal-Mogul proposed 524(g) asbestos trust would likely be within the range of the liabilities, net of insurance recoveries, that Cooper would accrue if this matter were not settled within the Federal-Mogul bankruptcy. Accordingly, Cooper recorded a \$126.0 million after-tax discontinued operations charge, net of a \$70.9 million income tax benefit, in the fourth quarter of 2003.

Cooper has continued discussions with the Representatives, but to date has been unable to reach a satisfactory conclusion. At this time, the exact manner in which this issue will be resolved is not known. The accrual for potential liabilities related to the Automotive Products sale and the Federal-Mogul bankruptcy was \$191.3 million at June 30, 2005 and \$225.1 million at December 31, 2004. Insurance recoveries are recorded as an increase in the accrual when cash is received, which may be an extended period from the date when a claim or defense costs are paid. During 2005, Cooper has engaged Bates White, LLC to update its analysis and assist Cooper in evaluating analyses prepared by the Representatives and their advisors and advise Cooper on accounting and reporting practices.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table reflects activity related to equity securities purchased by Cooper's wholly-owned subsidiaries during the three months ended June 30, 2005:

Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs⁽¹⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs⁽¹⁾
As of 3/31/05				6,761,050
4/01/04 - 4/30/05	232,500	\$ 68.08	232,500	6,528,550
5/01/04 - 5/31/05	254,300	65.96	254,300	6,274,250
6/01/04 - 6/30/05	246,500	67.04	246,500	6,027,750
Total	733,300	\$ 67.00	733,300	

- (1) On February 9, 2000, Cooper publicly announced that its Board of Directors authorized the repurchase of up to 5 million shares of Cooper common stock. On November 2, 2004, Cooper's Board of Directors authorized the repurchase of up to five million additional shares of Cooper's Class A common stock. Cooper has also announced that the Board authorized the repurchase of shares issued from time to time under its equity compensation plans in order to offset the dilution that results from issuing shares under

Table of Contents

these plans. For 2005, Cooper's current estimate is that 2.0 million shares will be issued under equity compensation plans which is reflected in the above table.

Item 6. Exhibits

- 12. Computation of Ratios of Earnings to Fixed Charges for the Calendar Years 2000 through 2004 and the Six Months Ended June 30, 2005 and 2004.

- 23. Consent of Bates White, LLC.

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

Signatures

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.

Cooper Industries, Ltd.

(Registrant)

Date: August 3, 2005

/s/ Terry A. Klebe

Terry A. Klebe
Senior Vice President and
Chief Financial Officer

Date: August 3, 2005

/s/ Jeffrey B. Levos

Jeffrey B. Levos
Vice President and Controller and
Chief Accounting Officer

-30-

Table of Contents

Exhibit Index

Exhibit No.

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