

COOPER INDUSTRIES LTD

Form 10-Q

November 07, 2005

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**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 September 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

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

Number of registrant's common stock outstanding as of September 30, 2005 was 91,623,592 Class A common shares that are held by the public and 9,519,414 Class A common shares and 54,810,129 Class B common shares that are held by the issuer's wholly-owned subsidiaries.

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

|                                     | <b>Three Months Ended</b>       |             | <b>Nine Months Ended</b> |             |
|-------------------------------------|---------------------------------|-------------|--------------------------|-------------|
|                                     | <b>September 30,</b>            |             | <b>September 30,</b>     |             |
|                                     | <b>2005</b>                     | <b>2004</b> | <b>2005</b>              | <b>2004</b> |
|                                     | (in millions, where applicable) |             |                          |             |
| Revenues                            | \$ 1,210.4                      | \$ 1,140.2  | \$ 3,544.4               | \$ 3,314.1  |
| Cost of sales                       | 828.1                           | 798.4       | 2,430.4                  | 2,315.6     |
| Selling and administrative expenses | 235.9                           | 211.6       | 696.3                    | 632.0       |
| Operating earnings                  | 146.4                           | 130.2       | 417.7                    | 366.5       |
| Interest expense, net               | 16.5                            | 17.0        | 52.0                     | 51.3        |
| Income before income taxes          | 129.9                           | 113.2       | 365.7                    | 315.2       |
| Income taxes                        | 27.9                            | 23.9        | 78.6                     | 64.3        |
| Net income                          | \$ 102.0                        | \$ 89.3     | \$ 287.1                 | \$ 250.9    |
| Income per common share:            |                                 |             |                          |             |
| Basic                               | \$ 1.11                         | \$ .97      | \$ 3.09                  | \$ 2.71     |
| Diluted                             | \$ 1.08                         | \$ .95      | \$ 3.02                  | \$ 2.65     |
| Cash dividends per common share     | \$ .37                          | \$ .35      | \$ 1.11                  | \$ 1.05     |

The accompanying notes are an integral part of these statements.

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

|  | <b>September<br/>30,<br/>2005</b> | <b>December<br/>31,<br/>2004</b> |
|--|-----------------------------------|----------------------------------|
|  | (in millions)                     |                                  |
| <b>ASSETS</b>  |                                   |                                  |
| Cash and cash equivalents                                    | \$ 376.0                          | \$ 652.8                         |
| Receivables  | 919.2                             | 820.9                            |
| Inventories  | 576.1                             | 523.0                            |
| Deferred income taxes and other current assets               | 174.5                             | 221.9                            |
| <b>Total current assets</b>                                  | <b>2,045.8</b>                    | <b>2,218.6</b>                   |
| Property, plant and equipment, less accumulated depreciation | 679.7                             | 696.4                            |
| Goodwill   | 2,090.0                           | 2,142.3                          |
| Deferred income taxes and other noncurrent assets            | 273.9                             | 283.5                            |
| <b>Total assets</b>  | <b>\$ 5,089.4</b>                 | <b>\$ 5,340.8</b>                |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                  |                                   |                                  |
| Short-term debt  | \$ 7.9                            | \$ 97.6                          |
| Accounts payable   | 385.1                             | 350.7                            |
| Accrued liabilities  | 490.6                             | 488.8                            |
| Accrual for discontinued operations                          | 171.4                             | 225.1                            |
| Current maturities of long-term debt                         | 449.3                             | 665.4                            |
| <b>Total current liabilities</b>                             | <b>1,504.3</b>                    | <b>1,827.6</b>                   |
| Long-term debt   | 680.5                             | 698.6                            |
| Postretirement benefits other than pensions                  | 165.9                             | 173.3                            |
| Other long-term liabilities                                  | 345.3                             | 354.8                            |
| <b>Total liabilities</b>                                     | <b>2,696.0</b>                    | <b>3,054.3</b>                   |
| Common stock, \$.01 par value                                | 0.9                               | 0.9                              |
| Capital in excess of par value                               | 390.1                             | 446.2                            |
| Retained earnings  | 2,154.9                           | 1,971.6                          |
| Accumulated other nonowner changes in equity                 | (152.5)                           | (132.2)                          |
| <b>Total shareholders' equity</b>                            | <b>2,393.4</b>                    | <b>2,286.5</b>                   |
| <b>Total liabilities and shareholders' equity</b>            | <b>\$ 5,089.4</b>                 | <b>\$ 5,340.8</b>                |

The accompanying notes are an integral part of these statements.

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**COOPER INDUSTRIES, LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2005</b>                                | <b>2004</b> |
|  | (in millions)                              |             |
| Cash flows from operating activities:                                  |  |             |
| Net income   | \$ 287.1                                   | \$ 250.9    |
| Adjustments to reconcile to net cash provided by operating activities: |  |             |
| Depreciation and amortization  | 84.1                                       | 88.8        |
| Deferred income taxes  | 5.0  | 29.0        |
| Restructuring charge payments  | (0.4)                                      | (3.8)       |
| Changes in assets and liabilities: <sup>(1)</sup>                      |  |             |
| Receivables  | (114.3)                                    | (97.2)      |
| Inventories  | (54.5)                                     | 10.7        |
| Accounts payable and accrued liabilities                               | 8.3  | (4.1)       |
| Other assets and liabilities, net                                      | 85.2                                       | 86.2        |
| Net cash provided by operating activities                              | 300.5                                      | 360.5       |
| Cash flows from investing activities:                                  |  |             |
| Capital expenditures   | (71.8)                                     | (64.1)      |
| Cash paid for acquired businesses                                      | (2.4)                                      | (10.1)      |
| Proceeds from sales of property, plant and equipment and other         | 6.6  | 8.5         |
| Net cash used in investing activities                                  | (67.6)                                     | (65.7)      |
| Cash flows from financing activities:                                  |  |             |
| Proceeds from issuances of debt  | 1.4  | 2.2         |
| Repayments of debt   | (270.1)                                    | (1.7)       |
| Dividends  | (103.8)                                    | (97.9)      |
| Subsidiary purchase of parent shares                                   | (166.2)                                    | (202.9)     |
| Activity under employee stock plans and other                          | 54.7                                       | 37.2        |
| Net cash used in financing activities                                  | (484.0)                                    | (263.1)     |
| Effect of exchange rate changes on cash and cash equivalents           | (25.7)                                     | 0.2         |
| Increase/(decrease) in cash and cash equivalents                       | (276.8)                                    | 31.9        |
| Cash and cash equivalents, beginning of period                         | 652.8                                      | 463.7       |
| Cash and cash equivalents, end of period                               | \$ 376.0                                   | \$ 495.6    |

<sup>(1)</sup> Net of the effects of acquisitions and translation.

The accompanying notes are an integral part of these statements.

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**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 ( FASB ) issued FASB Statement 123(R), *Share-Based Payment*, which is a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ( 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.

Effective January 1, 2003, Cooper adopted 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 \$30.0 million and \$16.1 million during the nine months ended September 30, 2005 and 2004, respectively.

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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. There are essentially two remaining differences between as reported and pro-forma amounts on both a net income, as well as earnings per share basis. First, Cooper accounts for award grants prior to January 1, 2003 using the intrinsic value method, whereas the pro-forma amounts reflect those award grants as calculated under SFAS 123. Secondly, the pro-forma amounts reflect recognition of the tax benefits of disqualifying dispositions of stock acquired pursuant to incentive stock options in accordance with SFAS 123.

|   | <b>Three Months Ended</b> |                | <b>Nine Months Ended</b> |                 |
|---|---------------------------|----------------|--------------------------|-----------------|
|   | <b>September 30,</b>      |                | <b>September 30,</b>     |                 |
|   | <b>2005</b>               | <b>2004</b>    | <b>2005</b>              | <b>2004</b>     |
|   | (in millions)             |                |                          |                 |
| Net income, as reported   | \$ 102.0                  | \$ 89.3        | \$ 287.1                 | \$ 250.9        |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects                                  | 8.3                       | 2.7            | 18.5                     | 9.6             |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (8.0)                     | (2.3)          | (16.1)                   | (11.3)          |
| <b>Pro forma net income</b>   | <b>\$ 102.3</b>           | <b>\$ 89.7</b> | <b>\$ 289.5</b>          | <b>\$ 249.2</b> |
| <b>Earnings per share:</b>  |                           |                |                          |                 |
| Basic as reported   | \$ 1.11                   | \$ .97         | \$ 3.09                  | \$ 2.71         |
| Basic pro forma   | \$ 1.11                   | \$ .98         | \$ 3.12                  | \$ 2.69         |
| Diluted as reported   | \$ 1.08                   | \$ .95         | \$ 3.02                  | \$ 2.65         |
| Diluted pro forma   | \$ 1.08                   | \$ .95         | \$ 3.05                  | \$ 2.63         |

**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**

|  | <b>September</b> | <b>December</b> |
|--|------------------|-----------------|
|  | <b>30,</b>       | <b>31,</b>      |
|  | <b>2005</b>      | <b>2004</b>     |
|  | (in millions)    |                 |
| Raw materials                                    | \$ 201.0         | \$ 185.2        |
| Work-in-process                                  | 147.9            | 118.6           |
| Finished goods                                   | 337.2            | 320.2           |
| Perishable tooling and supplies                  | 14.3             | 13.2            |
|  | 700.4            | 637.2           |
| Allowance for excess and obsolete inventory      | (58.9)           | (58.9)          |
| Excess of current standard costs over LIFO costs | (65.4)           | (55.3)          |
| <b>Net inventories</b>                           | <b>\$ 576.1</b>  | <b>\$ 523.0</b> |



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At September 30, 2005, 91,623,592 Class A common shares, \$.01 par value were issued and outstanding (excluding the 9,519,414 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 nine months of 2005, Cooper issued 1,589,332 Class A common shares primarily in connection with employee incentive and benefit plans and Cooper's dividend reinvestment program. During the first nine months of 2005, Cooper's wholly-owned subsidiaries purchased 2,509,400 Class A common shares for \$166.2 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 nine months of 2005, 359,223 Class A common shares held by wholly-owned subsidiaries were issued in connection with employee incentive plans, leaving 9,519,414 Class A common shares held by wholly-owned subsidiaries at September 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**

|                     | <b>Revenues</b>                             |             |  |             |
|---------------------|---|-------------|--|-------------|
|                     | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|                     | <b>2005</b>                                 | <b>2004</b> | <b>2005</b>                                | <b>2004</b> |
|                     | (in millions)                               |             |  |             |
| Electrical Products | \$ 1,027.5                                  | \$ 952.2    | \$ 3,006.4                                 | \$ 2,771.8  |
| Tools & Hardware    | 182.9                                       | 188.0       | 538.0                                      | 542.3       |
| Total revenues      | \$ 1,210.4                                  | \$ 1,140.2  | \$ 3,544.4                                 | \$ 3,314.1  |

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|                            | <b>Operating Earnings</b> |             |                          |             |
|----------------------------|---------------------------|-------------|--------------------------|-------------|
|                            | <b>Three Months</b>       |             | <b>Nine Months Ended</b> |             |
|                            | <b>Ended</b>              |             | <b>September 30,</b>     |             |
|                            | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                            | <b>2005</b>               | <b>2004</b> | <b>2005</b>              | <b>2004</b> |
|                            | (in millions)             |             |                          |             |
| Electrical Products        | \$ 158.2                  | \$ 131.2    | \$ 441.8                 | \$ 381.4    |
| Tools & Hardware           | 15.5                      | 18.3        | 46.0                     | 42.7        |
| Segment operating earnings | 173.7                     | 149.5       | 487.8                    | 424.1       |
| General Corporate expenses | 27.3                      | 19.3        | 70.1                     | 57.6        |
| Total operating earnings   | 146.4                     | 130.2       | 417.7                    | 366.5       |
| Interest expense, net      | 16.5                      | 17.0        | 52.0                     | 51.3        |
| Income before income taxes | \$ 129.9                  | \$ 113.2    | \$ 365.7                 | \$ 315.2    |

**Note 7. Pension and Other Postretirement Benefits**

|  | <b>Pension Benefits</b> |             |                          |             |
|--|-------------------------|-------------|--------------------------|-------------|
|  | <b>Three Months</b>     |             | <b>Nine Months Ended</b> |             |
|  | <b>Ended</b>            |             | <b>September 30,</b>     |             |
|  | <b>September 30,</b>    |             | <b>September 30,</b>     |             |
|  | <b>2005</b>             | <b>2004</b> | <b>2005</b>              | <b>2004</b> |
|  | (in millions)           |             |                          |             |
| Components of net periodic benefit cost: |                         |             |                          |             |
| Service cost                             | \$ 4.2                  | \$ 4.1      | \$ 12.9                  | \$ 12.2     |
| Interest cost                            | 9.8                     | 10.4        | 30.2                     | 31.1        |
| Expected return on plan assets           | (12.0)                  | (11.7)      | (37.4)                   | (35.1)      |
| Amortization of prior service cost       | 0.2                     | 0.2         | 0.5                      | 0.5         |
| Recognized actuarial loss                | 2.4                     | 1.8         | 7.2                      | 5.4         |
| Net periodic benefit cost                | \$ 4.6                  | \$ 4.8      | \$ 13.4                  | \$ 14.1     |

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|  | <b>Other Postretirement Benefits</b> |             |                          |             |
|--|--------------------------------------|-------------|--------------------------|-------------|
|  | <b>Three Months</b>                  |             | <b>Nine Months Ended</b> |             |
|  | <b>Ended</b>                         |             | <b>September 30,</b>     |             |
|  | <b>September 30,</b>                 |             | <b>September 30,</b>     |             |
|  | <b>2005</b>                          | <b>2004</b> | <b>2005</b>              | <b>2004</b> |
|  | (in millions)                        |             |                          |             |
| Components of net periodic benefit cost: |                                      |             |                          |             |
| Service cost                             | \$ 0.1                               | \$          | \$ 0.2                   | \$ 0.1      |
| Interest cost                            | 1.7                                  | 2.1         | 5.2                      | 6.2         |
| Recognized actuarial gain                | (0.8)                                | (0.7)       | (2.3)                    | (2.1)       |
| Net periodic benefit cost                | \$ 1.0                               | \$ 1.4      | \$ 3.1                   | \$ 4.2      |

**Note 8. Income Taxes**

The effective tax rate was 21.5% for the nine months ended September 30, 2005 and 20.4% for the nine months ended September 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**

|   | <b>Three Months</b>  |             | <b>Nine Months</b>   |             |
|---|----------------------|-------------|----------------------|-------------|
|   | <b>Ended</b>         |             | <b>Ended</b>         |             |
|   | <b>September 30,</b> |             | <b>September 30,</b> |             |
|   | <b>2005</b>          | <b>2004</b> | <b>2005</b>          | <b>2004</b> |
|   | (in millions)        |             |                      |             |
| <b>Basic:</b>   |                      |             |                      |             |
| Net income applicable to common stock                             | \$ 102.0             | \$ 89.3     | \$ 287.1             | \$ 250.9    |
| Weighted average common shares outstanding                        | 92.3                 | 91.8        | 92.8                 | 92.5        |
| <b>Diluted:</b>   |                      |             |                      |             |
| Net income applicable to common stock                             | \$ 102.0             | \$ 89.3     | \$ 287.1             | \$ 250.9    |
| Weighted average common shares outstanding                        | 92.3                 | 91.8        | 92.8                 | 92.5        |
| Incremental shares from assumed conversions:                      |                      |             |                      |             |
| Options, performance-based stock awards and other employee awards | 2.5                  | 2.2         | 2.4                  | 2.2         |
|   | 94.8                 | 94.0        | 95.2                 | 94.7        |

Weighted average common shares and common share  
equivalents

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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 |         | Nine Months Ended |          |
|---|--------------------|---------|-------------------|----------|
|   | September 30,      |         | September 30,     |          |
|   | 2005               | 2004    | 2005              | 2004     |
|   | (in millions)      |         |                   |          |
| Net income                                      | \$ 102.0           | \$ 89.3 | \$ 287.1          | \$ 250.9 |
| Foreign currency translation gains (losses)     | (6.9)              | 3.1     | (20.4)            | 4.9      |
| Change in fair value of derivatives             | 1.2                | (0.1)   | 0.1               | 1.2      |
| Net income and other nonowner changes in equity | \$ 96.3            | \$ 92.3 | \$ 266.8          | \$ 257.0 |

**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 September 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.

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

|                               | <b>Number<br/>of<br/>Employees</b> | <b>Accrued<br/>Severance</b> | <b>Facilities<br/>Closure and<br/>Rationalization</b> |
|-------------------------------|------------------------------------|------------------------------|---|
|                               |                                    |                              | (\$ 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 September 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 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 September 30, 2005, a total of 137,170 Abex Claims were filed, of which 98,444 claims have been resolved leaving 38,726 Abex Claims pending at September 30, 2005, that are the responsibility of Federal-Mogul. During the three months ended September 30, 2005, 1,199 claims were filed and 4,152 claims were resolved. Since August 28, 1998, the average indemnity payment for resolved Abex Claims was \$2,062 before insurance. A total of \$77 million was spent on defense costs for the period August 28, 1998 through September 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

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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.

Recently, Federal-Mogul and its constituents in the Chapter 11 proceedings announced that they have reached an agreement with UK administrators of Federal-Mogul's local affiliates, which Cooper believes brings Federal-Mogul closer to emerging from bankruptcy. Cooper is in active negotiations with representatives of Federal-Mogul, its bankruptcy committees and the future claimants to resolve its liability exposure for Abex Claims within the Federal-Mogul proposed 524(g) trust. While no agreement has been finalized, it is possible that in the foreseeable future Cooper could sign an agreement that would lead to a resolution of all of its Abex Claims through the 524(g) trust. If an agreement is reached, it will likely include an upfront payment of cash, shares of Cooper common stock, and an obligation for additional annual cash payments that could extend over 25 years. The amount of the annual ongoing obligation would likely be reduced by insurance proceeds received directly by the 524(g) trust during this period. If Cooper reaches a settlement on these terms, it would likely result in an additional earnings charge to discontinued operations. This charge would reflect 25 years of undiscounted cash outflows, and insurance recovery assumptions. There are numerous scenarios on insurance recoveries over an extended time, and Cooper is actively working to determine an appropriate insurance recovery scenario in the event that a settlement is signed. Bates White, LLC continues to assist Cooper in evaluating analyses prepared by the Representatives and their advisors and



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advise Cooper on accounting and reporting practices. From a cash flow perspective, Cooper management believes that a settlement on terms being discussed would allow Cooper to continue to grow through acquisitions and return cash to shareholders through dividends and stock repurchases. There is significant uncertainty as to whether any settlement agreement will be finalized. In addition, any settlement is subject to bankruptcy court approval, approval by the current claimants and other matters. 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 \$171.4 million at September 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.

**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, Cooper Ohio or the guaranteeing subsidiaries 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 September 30, 2005**  
(in millions)

|   | <b>Cooper</b> | <b>Cooper<br/>Industries,<br/>LLC</b> | <b>Guaranteeing<br/>Subsidiaries</b> | <b>Other<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|---|---------------|---------------------------------------|--------------------------------------|-------------------------------|--------------------------------------|--------------|
| Revenues  | \$            | \$                                    | \$ 820.2                             | \$ 430.2                      | \$ (40.0)                            | \$ 1,210.4   |
| Cost of sales                                   |               | (0.2)                                 | 573.4                                | 294.9                         | (40.0)                               | 828.1        |
| Selling and administrative expenses             | 2.0           | 4.1                                   | 146.3                                | 83.5                          |                                      | 235.9        |
| Interest expense, net                           | (0.1)         | 13.7                                  | (1.2)                                | 4.1                           |                                      | 16.5         |
| Equity in earnings of subsidiaries, net of tax. | 122.4         | 9.3                                   | 71.5                                 | 66.9                          | (270.1)                              |              |
| Intercompany income (expense)                   | (1.8)         | (10.3)                                | (120.7)                              | 149.5                         | (16.7)                               |              |
| Income (loss) before income taxes               | 118.7         | (18.6)                                | 52.5                                 | 264.1                         | (286.8)                              | 129.9        |
| Income tax expense (benefit)                    |               | (10.3)                                | (14.5)                               | 52.7                          |                                      | 27.9         |
| Net income (loss)                               | \$ 118.7      | \$ (8.3)                              | \$ 67.0                              | \$ 211.4                      | \$ (286.8)                           | \$ 102.0     |

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**Consolidating Income Statements**  
**Three Months Ended September 30, 2004**  
(in millions)

|  | <b>Cooper</b> | <b>Cooper<br/>Ohio</b> | <b>Other<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|--|---------------|------------------------|-------------------------------|--------------------------------------|--------------|
| Revenues                                       | \$            | \$ 45.2                | \$ 1,098.2                    | \$ (3.2)                             | \$ 1,140.2   |
| Cost of sales                                  |               | 31.0                   | 770.6                         | (3.2)                                | 798.4        |
| Selling and administrative expenses            | 2.0           | 23.6                   | 186.0                         |                                      | 211.6        |
| Interest expense, net                          | (0.2)         | 12.2                   | 5.0                           |                                      | 17.0         |
| Equity in earnings of subsidiaries, net of tax | 91.8          | 104.4                  | 42.1                          | (238.3)                              |              |
| Intercompany income (expense)                  | (0.7)         | (76.6)                 | 77.3                          |                                      |              |
| Income before income taxes                     | 89.3          | 6.2                    | 256.0                         | (238.3)                              | 113.2        |
| Income tax expense (benefit)                   |               | (35.9)                 | 59.8                          |                                      | 23.9         |
| Net income                                     | \$ 89.3       | \$ 42.1                | \$ 196.2                      | \$ (238.3)                           | \$ 89.3      |

**Nine Months Ended September 30, 2005**  
(in millions)

|  | <b>Cooper</b> | <b>Cooper<br/>Industries,<br/>LLC</b> | <b>Guaranteeing<br/>Subsidiaries</b> | <b>Other<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|--|---------------|---------------------------------------|--------------------------------------|-------------------------------|--------------------------------------|--------------|
| Revenues                                       | \$            | \$                                    | \$ 2,382.8                           | \$ 1,262.2                    | \$ (100.6)                           | \$ 3,544.4   |
| Cost of sales                                  | 0.2           |                                       | 1,685.7                              | 845.1                         | (100.6)                              | 2,430.4      |
| Selling and administrative expenses            | 6.7           | 7.9                                   | 429.5                                | 252.2                         |                                      | 696.3        |
| Interest expense, net                          | (1.0)         | 40.6                                  | (2.9)                                | 15.3                          |                                      | 52.0         |
| Equity in earnings of subsidiaries, net of tax | 360.4         | 59.0                                  | 182.1                                | 196.3                         | (797.8)                              |              |
| Intercompany income (expense)                  | (4.3)         | (37.1)                                | (286.9)                              | 391.5                         | (63.2)                               |              |
| Income (loss) before income taxes              | 350.2         | (26.6)                                | 165.7                                | 737.4                         | (861.0)                              | 365.7        |
| Income tax expense (benefit)                   |               | (31.8)                                | (30.6)                               | 141.0                         |                                      | 78.6         |
| Net income                                     | \$ 350.2      | \$ 5.2                                | \$ 196.3                             | \$ 596.4                      | \$ (861.0)                           | \$ 287.1     |

**Nine Months Ended September 30, 2004**  
(in millions)

|               | <b>Cooper</b> | <b>Cooper<br/>Ohio</b> | <b>Other<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|---------------|---------------|------------------------|-------------------------------|--------------------------------------|--------------|
| Revenues      | \$            | \$ 185.5               | \$ 3,141.9                    | \$ (13.3)                            | \$ 3,314.1   |
| Cost of sales | 0.6           | 123.3                  | 2,205.0                       | (13.3)                               | 2,315.6      |

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|   |          |          |          |            |          |
|---|----------|----------|----------|------------|----------|
| Selling and administrative expenses               | 6.7      | 76.3     | 549.0    |            | 632.0    |
| Interest expense, net                             | (0.7)    | 36.1     | 15.9     |            | 51.3     |
| Equity in earnings of subsidiaries, net<br>of tax | 260.9    | 330.9    | 117.8    | (709.6)    |          |
| Intercompany income (expense)                     | (3.4)    | (280.5)  | 283.9    |            |          |
| Income before income taxes                        | 250.9    | 0.2      | 773.7    | (709.6)    | 315.2    |
| Income tax expense (benefit)                      |          | (117.6)  | 181.9    |            | 64.3     |
| Net income  | \$ 250.9 | \$ 117.8 | \$ 591.8 | \$ (709.6) | \$ 250.9 |

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**Consolidating Balance Sheets**  
**September 30, 2005**  
(in millions)

|   | <b>Cooper</b>     | <b>Cooper<br/>Industries,<br/>LLC</b> | <b>Guaranteeing<br/>Subsidiaries</b> | <b>Other<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b>      |
|---|-------------------|---------------------------------------|--------------------------------------|-------------------------------|--------------------------------------|-------------------|
| Cash and cash equivalents                                     | \$ 56.5           | \$ (0.1)                              | \$ 66.7                              | \$ 252.9                      | \$                                   | \$ 376.0          |
| Receivables   |                   |                                       | 553.3                                | 365.9                         |                                      | 919.2             |
| Inventories   |                   |                                       | 341.8                                | 234.3                         |                                      | 576.1             |
| Deferred income taxes and other current assets                | 0.1               | 97.3                                  | 65.7                                 | 11.4                          |                                      | 174.5             |
| <b>Total current assets</b>                                   | <b>56.6</b>       | <b>97.2</b>                           | <b>1,027.5</b>                       | <b>864.5</b>                  |                                      | <b>2,045.8</b>    |
| Property, plant and equipment, less accumulated depreciation. |                   |                                       | 385.0                                | 294.7                         |                                      | 679.7             |
| Goodwill  |                   |                                       | 1,018.1                              | 1,071.9                       |                                      | 2,090.0           |
| Investment in subsidiaries                                    | 4,899.0           | 1,027.9                               | 4,802.5                              | 2,772.7                       | (13,502.1)                           |                   |
| Investment in parent  |                   |                                       | 2,522.3                              | 312.7                         | (2,835.0)                            |                   |
| Intercompany accounts receivables                             | 576.9             | 596.7                                 | 1,369.9                              | 2,570.2                       | (5,113.7)                            |                   |
| Intercompany notes receivable                                 | 46.1              | 14.1                                  | 73.4                                 | 5,971.2                       | (6,104.8)                            |                   |
| Deferred income taxes and other noncurrent assets             |                   | 121.6                                 | 39.7                                 | 112.6                         |                                      | 273.9             |
| <b>Total assets</b>   | <b>\$ 5,578.6</b> | <b>\$ 1,857.5</b>                     | <b>\$ 11,238.4</b>                   | <b>\$ 13,970.5</b>            | <b>\$ (27,555.6)</b>                 | <b>\$ 5,089.4</b> |
| Short-term debt   | \$                | \$                                    | \$                                   | \$ 7.9                        | \$                                   | \$ 7.9            |
| Accounts payable  | 34.2              | 11.9                                  | 190.5                                | 148.5                         |                                      | 385.1             |
| Accrued liabilities   | 3.7               | 29.6                                  | 325.6                                | 131.7                         |                                      | 490.6             |
| Accrual for discontinued operations                           |                   | 171.4                                 |                                      |                               |                                      | 171.4             |
| Current maturities of long-term debt                          |                   | 88.0                                  |                                      | 361.3                         |                                      | 449.3             |
| <b>Total current liabilities.</b>                             | <b>37.9</b>       | <b>300.9</b>                          | <b>516.1</b>                         | <b>649.4</b>                  |                                      | <b>1,504.3</b>    |
| Long-term debt  |                   | 671.1                                 | 8.0                                  | 1.4                           |                                      | 680.5             |

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|  |            |            |             |             |               |            |
|--|------------|------------|-------------|-------------|---------------|------------|
| Intercompany accounts payables               |            |            | 2,819.8     | 2,293.9     | (5,113.7)     |            |
| Intercompany notes payable                   | 272.8      | 470.7      | 5,235.6     | 125.7       | (6,104.8)     |            |
| Other long-term liabilities                  |            | 126.6      | 271.9       | 112.7       |               | 511.2      |
| Total liabilities                            | 310.7      | 1,569.3    | 8,851.4     | 3,183.1     | (11,218.5)    | 2,696.0    |
| Class A common stock                         | 0.9        |            |             |             |               | 0.9        |
| Class B common stock                         | 0.5        |            |             |             | (0.5)         |            |
| Subsidiary common stock                      |            |            |             | 258.6       | (258.6)       |            |
| Capital in excess of par value               | 3,197.7    |            | 501.1       | 6,735.8     | (10,044.5)    | 390.1      |
| Retained earnings                            | 2,231.0    | 401.6      | 2,048.8     | 4,133.3     | (6,659.8)     | 2,154.9    |
| Accumulated other nonowner changes in equity | (162.2)    | (113.4)    | (162.9)     | (340.3)     | 626.3         | (152.5)    |
| Total shareholders equity                    | 5,267.9    | 288.2      | 2,387.0     | 10,787.4    | (16,337.1)    | 2,393.4    |
| Total liabilities and shareholders equity    | \$ 5,578.6 | \$ 1,857.5 | \$ 11,238.4 | \$ 13,970.5 | \$ (27,555.6) | \$ 5,089.4 |

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**Consolidating Balance Sheets**  
**December 31, 2004**  
(in millions)

|   | Cooper            | Cooper<br>Ohio    | Other<br>Subsidiaries | Consolidating<br>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<br>current assets               | 1.3               | 215.0             | 5.6                   |                              | 221.9             |
| <b>Total current assets</b>                                     | <b>112.8</b>      | <b>476.1</b>      | <b>1,629.7</b>        |                              | <b>2,218.6</b>    |
| Property, plant and equipment, less<br>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<br>noncurrent assets            |                   | 112.6             | 170.9                 |                              | 283.5             |
| <b>Total assets</b>   | <b>\$ 3,438.2</b> | <b>\$ 7,686.1</b> | <b>\$ 9,582.0</b>     | <b>\$ (15,365.5)</b>         | <b>\$ 5,340.8</b> |
| <b>Short-term debt</b>  | <b>\$</b>         | <b>\$</b>         | <b>\$ 97.6</b>        | <b>\$</b>                    | <b>\$ 97.6</b>    |
| 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             |
| <b>Total current liabilities.</b>                               | <b>35.4</b>       | <b>605.8</b>      | <b>1,186.4</b>        |                              | <b>1,827.6</b>    |
| 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             |
| <b>Total liabilities</b>  | <b>171.1</b>      | <b>6,507.1</b>    | <b>1,518.5</b>        | <b>(5,142.4)</b>             | <b>3,054.3</b>    |
| 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             |
| Retained earnings   | 350.0             | 1,263.8           | 773.1                 | (415.3)                      | 1,971.6           |
| Accumulated other nonowner<br>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 |

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**Consolidating Statements of Cash Flows**  
**Nine Months Ended September 30, 2005**  
(in millions)

|   | <b>Cooper</b> | <b>Cooper<br/>Industries,<br/>LLC</b> | <b>Guaranteeing<br/>Subsidiaries</b> | <b>Other<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|---|---------------|---------------------------------------|--------------------------------------|-------------------------------|--------------------------------------|--------------|
| Net cash provided by<br>(used in) operating<br>activities | \$ (4.9)      | \$ (114.0)                            | \$ 20.4                              | \$ 399.0                      | \$                                   | \$ 300.5     |
| Cash flows from<br>investing activities:                  |               |                                       |                                      |                               |                                      |              |
| Capital expenditures                                      |               |                                       | (41.4)                               | (30.4)                        |                                      | (71.8)       |
| Cash paid for acquired<br>businesses                      |               |                                       |                                      | (2.4)                         |                                      | (2.4)        |
| Investment in affiliates                                  | (11.1)        | (9.8)                                 | (33.7)                               |                               | 54.6                                 |              |
| Loans to affiliates                                       | (46.0)        | (14.1)                                | (69.4)                               | (137.1)                       | 266.6                                |              |
| Repayments of loans<br>from affiliates                    | 25.6          |                                       |                                      |                               | (25.6)                               |              |
| Dividends from<br>affiliates                              |               | 0.9                                   | 86.7                                 | 3.1                           | (90.7)                               |              |
| Other   |               | 1.5                                   | 0.5                                  | 4.6                           |                                      | 6.6          |
| Net cash used in<br>investing activities                  | (31.5)        | (21.5)                                | (57.3)                               | (162.2)                       | 204.9                                | (67.6)       |
| Cash flows from<br>financing activities:                  |               |                                       |                                      |                               |                                      |              |
| Proceeds from issuances<br>of debt                        |               |                                       |                                      | 1.4                           |                                      | 1.4          |
| Repayments of debt  |               | (152.0)                               |                                      | (118.1)                       |                                      | (270.1)      |
| Borrowings from<br>affiliates                             | 137.1         | 7.9                                   |                                      | 121.6                         | (266.6)                              |              |
| Repayments of loans to<br>affiliates                      |               |                                       |                                      | (25.6)                        | 25.6                                 |              |
| Other intercompany<br>financing activities                | (16.7)        | 279.5                                 | (120.4)                              | (142.4)                       |                                      |              |
| Dividends   | (103.8)       |                                       |                                      |                               |                                      | (103.8)      |
| Dividends paid to<br>affiliates                           | (46.4)        |                                       |                                      | (44.3)                        | 90.7                                 |              |
| Subsidiary purchase of<br>parent shares                   | 11.2          |                                       | (78.0)                               | (99.4)                        |                                      | (166.2)      |
| Issuance of stock   |               |                                       |                                      | 54.6                          | (54.6)                               |              |
| Employee stock plan<br>activity and other                 |               |                                       | 54.7                                 |                               |                                      | 54.7         |
| Net cash provided by<br>(used in) financing               | (18.6)        | 135.4                                 | (143.7)                              | (252.2)                       | (204.9)                              | (484.0)      |

activities.

Effect of exchange rate  
changes on cash and  
cash equivalents.

(25.7)

(25.7)

Increase (decrease) in  
cash and cash  
equivalents

(55.0)

(0.1)

(180.5)

(41.2)

(276.8)

Cash and cash  
equivalents, beginning  
of period

111.5

247.2

294.1

652.8

Cash and cash  
equivalents, end of  
period

\$ 56.5

\$ (0.1)

\$ 66.7

\$ 252.9

\$

\$ 376.0

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**Consolidating Statements of Cash Flows**  
**Nine Months Ended September 30, 2004**  
(in millions)

|  | <b>Cooper</b> | <b>Cooper<br/>Ohio</b> | <b>Other<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|--|---------------|------------------------|-------------------------------|--------------------------------------|--------------|
| Net cash provided by (used in) operating activities          | \$ (6.2)      | \$ (72.7)              | \$ 439.4                      | \$                                   | \$ 360.5     |
| Cash flows from investing activities:                        |               |                        |                               |                                      |              |
| Capital expenditures   |               | (13.3)                 | (50.8)                        |                                      | (64.1)       |
| 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                                     | (4.8)         |                        |                               | 4.8                                  |              |
| Loans to affiliates  | (39.4)        | (23.7)                 | (82.5)                        | 145.6                                |              |
| Repayments of loans from affiliates                          | 34.1          | 3.0                    | 84.5                          | (121.6)                              |              |
| Dividends from subsidiaries                                  | 134.0         | 19.8                   |                               | (153.8)                              |              |
| Other  |               |                        | 8.5                           |                                      | 8.5          |
| Net cash provided by (used in) investing activities          | 123.9         | (86.8)                 | 22.2                          | (125.0)                              | (65.7)       |
| Cash flows from financing activities:                        |               |                        |                               |                                      |              |
| Proceeds from issuances of debt                              |               |                        | 2.2                           |                                      | 2.2          |
| Repayments of debt   |               |                        | (1.7)                         |                                      | (1.7)        |
| Borrowings from affiliates                                   | 83.5          |                        | 62.1                          | (145.6)                              |              |
| Repayments of loans to affiliates                            | (132.1)       |                        | 10.5                          | 121.6                                |              |
| Other intercompany financing activities                      | 3.2           | 202.0                  | (205.2)                       |                                      |              |
| Dividends  | (97.9)        |                        |                               |                                      | (97.9)       |
| Dividends paid to affiliates                                 |               |                        | (153.8)                       | 153.8                                |              |
| Subsidiary purchase of parent shares                         |               | (110.3)                | (92.6)                        |                                      | (202.9)      |
| Employee stock plan activity and other                       |               | 37.2                   | 4.8                           | (4.8)                                | 37.2         |
| Net cash provided by (used in) financing activities          | (143.3)       | 128.9                  | (373.7)                       | 125.0                                | (263.1)      |
| Effect of exchange rate changes on cash and cash equivalents |               |                        | 0.2                           |                                      | 0.2          |
| Increase (decrease) in cash and cash equivalents             | (25.6)        | (30.6)                 | 88.1                          |                                      | 31.9         |

|   |         |          |          |          |
|---|---------|----------|----------|----------|
| Cash and cash equivalents,<br>beginning of period | 96.4    | 257.2    | 110.1    | 463.7    |
| Cash and cash equivalents, end of<br>period       | \$ 70.8 | \$ 226.6 | \$ 198.2 | \$ 495.6 |

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

**Three Months Ended September 30, 2005 Compared With Three Months Ended September 30, 2004**

Net income for the third quarter of 2005 was \$102.0 million on revenues of \$1,210.4 million compared with 2004 third quarter net income of \$89.3 million on revenues of \$1,140.2 million. Third quarter diluted earnings per share increased 14% to \$1.08 from \$.95 in 2004.

***Revenues:***

Revenues for the third quarter of 2005 increased 6% compared to the third quarter of 2004. The impact of foreign currency translation increased reported revenues by less than 1% for the quarter.

Electrical Products segment revenues for the third quarter of 2005 increased 8% compared to the third quarter of 2004. Foreign currency translation increased revenues by less than 1% for the quarter. Electrical Products revenue growth was experienced in each of the major markets served. Strong demand from industrial, utility and residential construction markets plus sustained commercial construction levels provided solid market fundamentals. The retail sector also provided revenue growth for the quarter. In addition, repair and replacement needs in the hurricane damaged U.S. Gulf Coast contributed to revenue growth.

Tools & Hardware segment revenues for the third quarter of 2005 decreased 3% from the third quarter of 2004. Foreign currency translation increased revenues by approximately 2% for the quarter. Tools & Hardware segment 2005 revenues declined primarily due to spending cutbacks implemented by automotive manufacturers for automated assembly systems and weaker demand for industrial power tools. Conversely, sales of hand tools continued to provide growth due to strong industrial and retail demand.

***Costs and Expenses:***

Cost of sales, as a percentage of revenues, was 68.4% for the third quarter of 2005 compared to 70.0% for the comparable 2004 quarter. The decrease in the cost of sales percentage was primarily due to continued productivity improvements, adequate pricing to offset material, energy and transportation cost increases, and increased volume leverage of costs in the Electrical Products segment.

Electrical Products segment cost of sales, as a percentage of revenues, was 67.9% for the third quarter of 2005 compared to 69.5% for the third quarter of 2004. The decrease in cost of sales percentage resulted from productivity improvements and revenue leverage. Tools & Hardware segment cost of sales, as a percentage of revenues, was 71.6% for the third quarter of 2005 compared to 72.5% for the third 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 third quarter of 2005 were 19.5% compared to 18.6% for the third quarter of 2004. The increase is primarily due to costs incurred related to reorganizing certain corporate activities, stock-based compensation expenses from 2005 grants and accelerated vesting of stock-based compensation and other costs related to the retirement of a senior executive. Increased audit and Sarbanes-Oxley Act compliance costs also contributed to the increase.

Electrical Products segment selling and administrative expenses, as a percentage of revenues, were 16.7% for both the third quarter of 2005 and the third quarter of 2004. Leverage benefits from higher revenues and productivity improvements were offset by increased stock-based compensation costs and investment in international and other selling and marketing initiatives.

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Tools & Hardware segment selling and administrative expenses, as a percentage of revenues, for the third quarter of 2005 were 19.9% compared to 17.8% for the third quarter of 2004. The increase in the selling and administrative expenses percentage is primarily due to decreased leverage from lower volumes, increased stock-based compensation costs and costs of productivity actions implemented in the third quarter of 2005.

Interest expense, net for the third quarter of 2005 decreased \$0.5 million from the 2004 third quarter primarily as a result of lower average debt balances and incremental interest earned on cash balances, partially offset by higher average interest rates. Average debt balances were \$1.27 billion and \$1.33 billion and average interest rates were 6.1% and 5.7% for the third quarter of 2005 and 2004, respectively.

***Operating Earnings:***

Electrical Products segment third quarter 2005 operating earnings increased 21% to \$158.2 million from \$131.2 million for the same quarter of last year. The increase was a result of revenue growth, productivity improvements, price increases sufficient to offset inflationary pressures on key product and distribution costs and revenue leverage.

Tools & Hardware segment third quarter 2005 operating earnings decreased 15% to \$15.5 million compared to \$18.3 million in the third quarter of 2004. The decrease was a result of lower revenues from power tools and assembly systems, partially offset by favorable sales mix from declines in overall assembly equipment business. Selling, general and administrative costs increased, as costs of productivity actions implemented in the third quarter of 2005, net of savings, was approximately \$2.0 million.

General Corporate expense increased \$8.0 million to \$27.3 million during the third quarter of 2005 compared to \$19.3 million during the third quarter of 2004. This increase primarily resulted from reorganizing certain corporate activities, stock-based compensation expenses from 2005 grants and accelerated vesting of stock-based compensation and other costs related to the retirement of a senior executive. Increased Sarbanes-Oxley Act compliance costs also contributed to the increase.

***Income Taxes:***

The effective tax rate was 21.5% for the three months ended September 30, 2005 and 21.1% for the three months ended September 30, 2004. The increase is primarily related to increased projected taxable earnings in 2005, without a corresponding increase in projected tax benefits.

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**Nine Months Ended September 30, 2005 Compared With Nine Months Ended September 30, 2004**

Net income for the first nine months of 2005 was \$287.1 million on revenues of \$3,544.4 million compared with 2004 nine months net income of \$250.9 million on revenues of \$3,314.1 million. Nine months diluted earnings per share increased 14% to \$3.02 from \$2.65 in 2004.

***Revenues:***

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

Electrical Products segment revenues for the first nine months of 2005 increased approximately 9% compared to the first nine months 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 nine months of the year. Sales growth was supported by favorable industrial, utility and energy markets as well as solid retail demand and steady commercial construction. The segment's key growth initiatives as well as price increases in response to inflationary cost pressures produced growth across the business lines.

Tools & Hardware segment revenues for the first nine months of 2005 decreased approximately 1% compared to the first nine months of 2004. Foreign currency translation increased revenues by approximately 2% in the first nine months of 2005. The segment results reflect mixed end user markets. Industrial and retail market demand drove growth in hand tools, but a weak automotive market led to declines in power tools and automated assembly systems revenues. Pricing actions in response to inflationary cost pressures provided a partial offset to volume declines.

***Costs and Expenses:***

Cost of sales, as a percentage of revenues, was 68.6% for the first nine months of 2005 compared to 69.9% for the comparable 2004 period. The decrease in the cost of sales percentage was primarily a result of increased leverage from higher revenues and productivity improvements. Overall, pricing actions were estimated to be close to parity to offset increases in key materials, energy and transportation costs.

Electrical Products segment cost of sales, as a percentage of revenues, was 68.1% for the first nine months of 2005 compared to 69.2% for the first nine months 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 70.9% for the first half of 2005 compared to 72.9% for the same period of 2004. The decrease in cost of sales percentage reflects productivity improvements and decreased sales of lower margin assembly systems.

Selling and administrative expenses, as a percentage of revenues, for the first nine months of 2005 were 19.6% compared to 19.1% for the first nine months of 2004. The increase was primarily associated with costs incurred to reorganize certain activities and higher stock-based compensation costs from 2005 grants and accelerated vesting of stock-based compensation and other costs related to the retirement of a senior executive. Increased audit and Sarbanes-Oxley Act compliance expenses also contributed to the increase.

Electrical Products segment selling and administrative expenses, as a percentage of revenues, for the first nine months of 2005 were 17.2% compared to 17.0% for the first nine months 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 nine months of 2005 were 20.5% compared to 19.3% for the first nine months of 2004. The increase in the selling and administrative expenses percentage is primarily due to increased incentive-based

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compensation expenses, globalization initiatives and productivity actions implemented in the third quarter of 2005.

Interest expense, net for the first nine months of 2005 increased \$0.7 million from the 2004 first nine months primarily as a result of higher average interest rates partially offset by additional interest earned on higher average cash balances. Average debt balances were \$1.33 billion during both periods and average interest rates were 6.0% and 5.6% for the first nine months of 2005 and 2004, respectively.

***Operating Earnings:***

Electrical Products segment first nine months of 2005 operating earnings increased 16% to \$441.8 million from \$381.4 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 nine months 2005 operating earnings increased 8% to \$46.0 million compared to \$42.7 million in the same period of 2004. The increase reflects favorable sales mix, product cost reductions and productivity improvements.

General Corporate expense increased \$12.5 million to \$70.1 million during the first nine months of 2005 compared to \$57.6 million during the same period of 2004. The increase was primarily associated with costs incurred to reorganize certain corporate activities, and higher stock-based compensation costs from 2005 grants and accelerated vesting of stock-based compensation and other costs related to the retirement of a senior executive. Increased audit and Sarbanes-Oxley Act compliance expenses also contributed to the increase.

Cooper anticipates incurring additional costs for productivity actions and stock-based compensation expense related to the retirement of a senior executive, net of related savings, in the range of approximately \$.03 - \$.04 per share during the fourth quarter 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 September 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 the fourth quarter of 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,

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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 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.

|                               | <b>Number<br/>of<br/>Employees</b> | <b>Accrued<br/>Severance</b> | <b>Facilities<br/>Closure and<br/>Rationalization</b> |
|-------------------------------|------------------------------------|------------------------------|---|
|                               |                                    |                              | (\$ 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 September 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 nine months ended September 30, 2005 and 20.4% for the nine months ended September 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 \$117 million during the first nine months of 2005. The increase included a \$98 million increase in receivables and a \$53 million increase in inventories, partially offset by a \$34 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

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operating working capital) for the first nine 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.

Cash provided by operating activities was \$301 million for the first nine months of 2005. This cash, plus \$277 million of cash and cash equivalents and \$55 million of cash received from employee stock activity were primarily used to fund capital expenditures of \$72 million, dividends of \$104 million, debt repayments of \$270 million and share purchases of \$166 million during the first nine months of 2005.

Cash provided by operating activities was \$361 million during the first nine months of 2004. This cash, plus an additional \$37 million of cash received from employee stock activity were primarily used to fund capital expenditures of \$64 million, an acquisition of \$10 million, dividends of \$98 million and share purchases of \$203 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 \$2.1 million and \$4.5 million during the nine months ended September 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 an upfront payment of cash and an obligation for additional cash payments that could extend over 25 years. Cooper anticipates that any settlement cash contribution amounts as well as payments under the long-term obligation 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 32.2% at September 30, 2005, 39.0% at December 31, 2004 and 38.3% at September 30, 2004.

At September 30, 2005 and December 31, 2004, Cooper had short-term debt of \$7.9 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 September 30, 2005 and December 31, 2004, Cooper had cash and cash equivalents of \$376.0 million and \$652.8 million, respectively. At September 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.

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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 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.

During the 2005 third quarter, Cooper repaid \$152 million of second series medium-term notes that matured. An additional \$77 million of these notes mature in the 2005 fourth quarter. Also, on October 25, 2005, Cooper repaid the 300 million Euro bond issuance, which matured on that date. Repayments of these debt maturities were funded from cash provided by operating activities, existing cash and cash equivalents, and commercial paper issuances. Cooper currently expects to issue a new series of seven-year notes.

**Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

As of September 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:

|                     | <b>September 30,</b> |             |
|---------------------|----------------------|-------------|
|                     | <b>2005</b>          | <b>2004</b> |
|                     | (in millions)        |             |
| Electrical Products | \$ 397.7             | \$ 324.0    |
| Tools & Hardware    | 64.0                 | 75.1        |
|                     | \$ 461.7             | \$ 399.1    |

**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.

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**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 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-half 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.

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**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 September 30, 2005, a total of 137,170 Abex Claims were filed, of which 98,444 claims have been resolved leaving 38,726 Abex Claims pending at September 30, 2005, that are the responsibility of Federal-Mogul. During the three months ended September 30, 2005, 1,199 claims were filed and 4,152 claims were resolved. Since August 28, 1998, the average indemnity payment for resolved Abex Claims was \$2,062 before insurance. A total of \$77 million was spent on defense costs for the period August 28, 1998 through September 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

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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.

Recently, Federal-Mogul and its constituents in the Chapter 11 proceedings announced that they have reached an agreement with UK administrators of Federal-Mogul's local affiliates, which Cooper believes brings Federal-Mogul closer to emerging from bankruptcy. Cooper is in active negotiations with representatives of Federal-Mogul, its bankruptcy committees and the future claimants to resolve its liability exposure for Abex Claims within the Federal-Mogul proposed 524(g) trust. While no agreement has been finalized, it is possible that in the foreseeable future Cooper could sign an agreement that would lead to a resolution of all of its Abex Claims through the 524(g) trust. If an agreement is reached, it will likely include an upfront payment of cash, shares of Cooper common stock, and an obligation for additional annual cash payments that could extend over 25 years. The amount of the annual ongoing obligation would likely be reduced by insurance proceeds received directly by the 524(g) trust during this period. If Cooper reaches a settlement on these terms, it would likely result in an additional earnings charge to discontinued operations. This charge would reflect 25 years of undiscounted cash outflows, and insurance recovery assumptions. There are numerous scenarios on insurance recoveries over an extended time, and Cooper is actively working to determine an appropriate insurance recovery scenario in the event that a settlement is signed. Bates White, LLC continues to assist Cooper in evaluating analyses prepared by the Representatives and their advisors and advise Cooper on accounting and reporting practices. From a cash flow perspective, Cooper management believes that a settlement on terms being discussed would allow Cooper to continue to grow through acquisitions and return cash to shareholders through dividends and stock repurchases. There is significant uncertainty as to whether any settlement agreement will be finalized. In addition, any settlement is subject to bankruptcy court approval, approval by the current claimants and other matters. 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 \$171.4 million at September 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.

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## 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 September 30, 2005:

**Purchases of Equity Securities**

| <b>Period</b>     | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid per<br/>Share</b> | <b>Total Number of<br/>Shares<br/>Purchased as Part<br/>of<br/>Publicly<br/>Announced Plans<br/>or<br/>Or Programs <sup>(1)</sup></b> | <b>Maximum<br/>Number of<br/>Shares that<br/>May Yet<br/>Purchased<br/>Under the<br/>Plans Or<br/>Programs <sup>(1)</sup></b> |
|-------------------|---|---|---|---|
| As of 6/30/05     |   |   |   | 6,027,750   |
| 7/01/05 - 7/31/05 | 346,100   | \$ 64.80  | 346,100   | 5,681,650   |
| 8/01/05 - 8/31/05 | 760,000   | \$ 63.81  | 760,000   | 4,921,650   |
| 9/01/05 - 9/30/05 | 270,000   | \$ 67.26  | 270,000   | 4,651,650   |
| <b>Total</b>      | <b>1,376,100</b>                                    | <b>\$ 64.73</b>                                 | <b>1,376,100</b>  |   |

(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, matched savings plan, and dividend reinvestment plan in order to offset the dilution that results from issuing shares under these plans. For 2005, Cooper's current estimate is that 2.0 million shares will be issued under these 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 Nine Months Ended September 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.

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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: November 7, 2005

/s/ Terry A. Klebe

Terry A. Klebe  
Senior Vice President and  
Chief Financial Officer

Date: November 7, 2005

/s/ Jeffrey B. Levos

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

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Exhibit Index

Exhibit No.

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