

COOPER INDUSTRIES LTD

Form 10-Q

October 29, 2007

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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, 2007

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 5600

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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, 2007 was 180,071,398 Class A common shares that are held by the public and 27,195,002 Class A common shares and 109,620,258 Class B common shares that are held by the issuer's wholly owned subsidiaries.

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Certification of CEO Pursuant to Section 906

Certification of CFO Pursuant to Section 906

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in millions, where applicable)			
Revenues	\$ 1,501.3	\$ 1,314.6	\$ 4,359.0	\$ 3,843.3
Cost of sales	1,008.1	887.2	2,937.6	2,604.3
Selling and administrative expenses	276.7	240.8	801.2	722.6
Operating earnings	216.5	186.6	620.2	516.4
Income from Belden agreement	23.5		26.8	
Interest expense, net	12.3	14.0	38.1	38.5
Income from continuing operations before income taxes	227.7	172.6	608.9	477.9
Income taxes	55.8	44.4	95.9	122.2
Income from continuing operations	171.9	128.2	513.0	355.7
Charge related to discontinued operations, net of income taxes				20.3
Net income	\$ 171.9	\$ 128.2	\$ 513.0	\$ 335.4
Income per common share:				
Basic:				
Income from continuing operations	\$.94	\$.70	\$ 2.80	\$ 1.93
Charge from discontinued operations				.11
Net income	\$.94	\$.70	\$ 2.80	\$ 1.82
Diluted:				
Income from continuing operations	\$.93	\$.69	\$ 2.75	\$ 1.89
Charge from discontinued operations				.11
Net income	\$.93	\$.69	\$ 2.75	\$ 1.78
Cash dividends per common share	\$.21	\$.185	\$.63	\$.555

The accompanying notes are an integral part of these statements.

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

	September 30, 2007	December 31, 2006
	(in millions)	
ASSETS		
Cash and cash equivalents	\$ 307.4	\$ 423.5
Receivables	1,117.3	896.0
Inventories	665.9	607.6
Deferred income taxes and other current assets	262.3	266.6
Total current assets	2,352.9	2,193.7
Property, plant and equipment, less accumulated depreciation	701.8	665.4
Goodwill	2,463.4	2,336.9
Other noncurrent assets	250.1	178.8
Total assets	\$ 5,768.2	\$ 5,374.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt	\$ 15.3	\$ 5.0
Accounts payable	544.8	471.7
Accrued liabilities	545.7	522.3
Current discontinued operations liability	191.0	199.6
Current maturities of long-term debt	100.0	300.7
Total current liabilities	1,396.8	1,499.3
Long-term debt	910.0	702.8
Postretirement benefits other than pensions	80.8	83.2
Long-term discontinued operations liability	330.0	330.0
Other long-term liabilities	336.1	284.2
Total liabilities	3,053.7	2,899.5
Common stock, \$.01 par value	1.8	0.9
Capital in excess of par value	119.1	278.4
Retained earnings	2,694.0	2,324.4
Accumulated other nonowner changes in equity	(100.4)	(128.4)
Total shareholders' equity	2,714.5	2,475.3
Total liabilities and shareholders' equity	\$ 5,768.2	\$ 5,374.8

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended September 30,	
	2007	2006
	(in millions)	
Cash flows from operating activities:		
Net income	\$ 513.0	\$ 335.4
Plus: charge related to discontinued operations		20.3
Income from continuing operations	513.0	355.7
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	87.7	85.0
Deferred income taxes	5.5	12.6
Excess tax benefits from stock options and awards	(19.6)	(21.4)
Changes in assets and liabilities: ⁽¹⁾		
Receivables	(161.9)	(87.8)
Inventories	(11.2)	(81.5)
Accounts payable and accrued liabilities	36.5	(0.9)
Other assets and liabilities, net	13.3	113.0
Net cash provided by operating activities	463.3	374.7
Cash flows from investing activities:		
Capital expenditures	(91.0)	(58.1)
Cash paid for acquired businesses	(194.5)	(279.4)
Proceeds from sales of property, plant and equipment and other	0.8	18.4
Net cash used in investing activities	(284.7)	(319.1)
Cash flows from financing activities:		
Proceeds from issuances of debt	306.7	
Debt issue costs	(2.7)	
Proceeds from debt derivatives	10.0	
Repayments of debt	(303.0)	(13.3)
Dividends	(116.2)	(103.0)
Purchase of common shares	(274.8)	(261.7)
Excess tax benefits from stock options and awards	19.6	21.4
Activity under employee stock plans and other	54.7	81.1
Net cash used in financing activities	(305.7)	(275.5)
Effect of exchange rate changes on cash and cash equivalents	11.0	11.0
Decrease in cash and cash equivalents	(116.1)	(208.9)
Cash and cash equivalents, beginning of period	423.5	452.8
Cash and cash equivalents, end of period	\$ 307.4	\$ 243.9

- (1) 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, 2006 included in Part IV of Cooper's 2006 Annual Report on Form 10-K.

Impact of New Accounting Standards In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (the Interpretation). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This Interpretation prescribes a more-likely-than not recognition threshold that a tax position will be sustained upon examination and a measurement attribute for the financial statement recognition of a tax position taken or expected to be taken in a tax return. For Cooper, the Interpretation was effective January 1, 2007. See Note 9 of the Notes to the Consolidated Financial Statements.

In September 2006, the Financial Accounting Standards Board issued FASB Statement No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the assets or liabilities and establishes a hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Cooper is currently evaluating the impact of this Statement on its consolidated financial statements.

In February 2007, the Financial Accounting Standards Board issued FASB Statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits companies to choose to measure many eligible recognized financial assets and financial liabilities, financial instruments and certain other eligible items at fair value that are not currently required to be measured at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Cooper is currently evaluating the impact of this Statement on its consolidated financial statements.

Note 2. Stock-Based Compensation

Cooper has a share-based compensation plan known as the Amended and Restated Stock Incentive Plan (the Plan). The Plan provides for the granting of stock options, performance-based share awards and restricted stock units. Since the original Plan's inception in 1996, the aggregate number of shares authorized under the Plan is 34 million. As of September 30, 2007, 3,290,792 shares remain available for future grants under the Plan all of which are available for grants of stock options, performance-based shares and restricted stock units. Total compensation expense for all share-based compensation arrangements under the Plan was

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\$29.5 million and \$22.8 million for the nine months ended September 30, 2007 and 2006, respectively. The total income tax benefit recognized in the income statement for all share-based compensation arrangements under the Plan was \$10.3 million and \$8.1 million for the nine months ended September 30, 2007 and 2006, respectively. During the nine months ended September 30, 2007, Cooper granted 1,734,700 stock option awards, 556,000 performance-based shares and 277,400 restricted stock units.

Note 3. Acquisitions and Divestitures

Cooper executed seven acquisitions during the nine months ended September 30, 2007. These acquisitions were selected because of their strategic fit with existing Cooper businesses or were new strategic lines that were complementary to Cooper's operations.

In January 2007, Cooper acquired WPI Interconnect Products (WPI) and Cybectec, Inc. (Cybectec). WPI provides highly customized specification-grade connector technologies for use in harsh, heavy-duty and hazardous locations in military, industrial and commercial applications. Cybectec provides products and software systems that meet utilities most demanding real-time and reliability requirements in a number of areas, including electrical power substation automation, integration, communication and instrumentation. In March 2007, Cooper acquired Polaron plc, which provides intelligent lighting control solutions for use in office, hospitality, educational and urban outdoors settings that allow customers to realize energy savings, creative ambiance, or enhanced productivity, safety and security. In May 2007, Cooper acquired MadahCom, Inc., a manufacturer of secure wireless emergency control and mass notification systems. In August 2007, Cooper acquired io Lighting (IO) and Powerline Communications, Inc. (PCI). IO is a dedicated light-emitting diode lighting fixture company and PCI manufactures digital lighting control panels. In September 2007, Cooper entered into a joint venture with Nature Science and Technology Company, a medium voltage indoor switchgear manufacturer based in China. Cooper controls 60% of the joint venture.

Total cash consideration was \$194.5 million for the seven acquisitions, net of cash acquired, including acquisition costs. The acquisitions resulted in the recognition of preliminary estimated aggregate goodwill of \$104.3 million.

Cooper makes an initial allocation of the purchase price as of the date of acquisition, based on its understanding of the fair value of the assets and liabilities acquired. The following table summarizes the aggregate estimated preliminary fair values of the assets acquired and the liabilities assumed at the acquisition date for the acquisitions completed during the nine months ended September 30, 2007:

	Total (in millions)
Accounts receivable	\$ 37.6
Inventory	33.6
Property, plant and equipment	20.9
Goodwill	104.3
Other intangible assets	75.0
Accounts payable	(41.9)
Other assets and liabilities, net	(35.0)
Net cash consideration	\$ 194.5

Cooper continues to evaluate the fair value of the assets and liabilities acquired during the nine months ended September 30, 2007 and will adjust the allocations as additional information relative to the businesses becomes available for up to one year from the acquisition date.

In August 2006, Cooper completed the acquisition of all of the outstanding stock of Cannon Technologies, Inc. for \$190.4 million, net of cash acquired, including acquisition costs. Cannon is a provider of automation technologies for monitoring and metering, and energy management by electrical utilities. The

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Cannon acquisition resulted in the recognition of goodwill of \$150.1 million, primarily related to the future earnings and cash flow potential resulting from Cannon's rapidly expanding customer base. Purchased research and development costs acquired and written off of \$4.2 million pre-tax were included in cost of sales.

In the first nine months of 2006, Cooper acquired three additional companies for total consideration of \$89.0 million, net of cash acquired, including acquisition costs. In general, the acquired businesses were manufacturers and assemblers of electrical products, in markets such as aerospace, subsea, military, industrial and fire and safety. These companies were all complementary to existing businesses owned by Cooper and resulted in aggregate goodwill of \$41.6 million.

In July 2006, Cooper divested one small business within the Electrical Products segment for aggregate proceeds of \$11.5 million. A pre-tax gain of \$4.7 million was recognized on the divestiture.

The results of operations are included in Cooper's consolidated financial statements since the date of acquisition. Pro-forma net income and earnings per share for the nine months ended September 30, 2007 and 2006, assuming the acquisitions had been made at the beginning of the year, would not have been materially different from reported results.

Note 4. Inventories

	September 30, 2007	December 31, 2006
	(in millions)	
Raw materials	\$ 230.8	\$ 204.2
Work-in-process	186.4	160.7
Finished goods	402.2	366.3
Perishable tooling and supplies	15.0	14.6
	834.4	745.8
Allowance for excess and obsolete inventory	(76.1)	(65.6)
Excess of current standard costs over LIFO costs	(92.4)	(72.6)
Net inventories	\$ 665.9	\$ 607.6

Note 5. Long-Term Debt

Cooper's \$300 million, 5.25% senior unsecured notes, which were issued in June 2002, matured in July 2007. On June 18, 2007, Cooper's wholly-owned subsidiary, Cooper US, Inc. issued \$300 million of senior unsecured notes due in 2017. The fixed rate notes have an interest coupon of 6.10% and are guaranteed by Cooper and certain of its principal operating subsidiaries. Proceeds from the financing were used to repay the maturing 5.25% notes. Combined with interest rate hedges implemented in anticipation of the offering, the 6.10% notes will have an effective annual cost to Cooper of 5.75%.

Note 6. Shareholders Equity

On February 14, 2007, Cooper announced that the Board of Directors approved a two-for-one stock split of Cooper common stock. The record date for the stock split was February 28, 2007 and the distribution date was March 15, 2007. All share and per share information presented in this Form 10-Q has been retroactively restated to reflect the effect of the stock split.

At September 30, 2007, 180,071,398 Class A common shares, \$.01 par value were issued and outstanding (excluding the 27,195,002 Class A common shares held by wholly-owned subsidiaries as discussed below) compared to 182,282,042 Class A common shares, \$.01 par value (excluding the 25,876,802 Class A common shares held by wholly-owned subsidiaries) at December 31, 2006. During the nine months ended September 30, 2007, Cooper issued 3,334,369 Class A common shares primarily in

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connection with employee incentive and benefit plans and Cooper's dividend reinvestment program. During the nine months ended September 30, 2007, Cooper and its wholly-owned subsidiaries purchased 5,545,013 Class A common shares for \$274.8 million under Cooper's share repurchase plan. The share purchases are recorded by Cooper's wholly-owned subsidiaries as an investment in its parent company that is eliminated in consolidation.

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. During the first nine months of 2007, Cooper's wholly-owned subsidiaries received the regular quarterly dividend of \$.21 per share (or an aggregate of \$86.0 million) on all Class A and Class B common shares held.

The Board of Directors adopted a Shareholder Rights Plan that authorized the issuance of one right for each common share outstanding on May 22, 2002. Each Right entitled the holder to buy one one-hundredth of a share of Series A Participating preferred Stock at a purchase price of \$225 per one one-hundredth of a share or, in certain circumstances common shares having a value of twice the purchase price. Each Right became exercisable only in certain circumstances constituting a potential change of control on a basis considered inadequate by the Board of Directors. The Rights were scheduled to expire August 5, 2007.

On August 3, 2007, Cooper entered into an Amended and Restated Rights Agreement (the Amended Rights Plan). The Amended Rights Plan extends the final expiration of the Shareholder Rights Plan to August 1, 2017. In addition, the Amended Rights Plan increases the exercise price of each full Right from \$225 to \$600 (equivalent to \$300 for each one-half of a Right, which is the fraction of a Right that is currently associated with each Class A common share following the two-for-one stock split effective March 2007); eliminates a ten-day window to redeem the Rights after a person has become an Acquiring Person (as defined in the Amended Rights Plan); adds a provision that allows the Board of Directors to exchange the outstanding and exercisable Rights for additional common shares (or, in certain situations, a number of Series A Participating Preferred Shares) at the rate of one common share per Right, at anytime after a person becomes an Acquiring Person, and adds a provision clarifying that Cooper is allowed to lower the acquiror ownership threshold at which dilution is triggered to no less than 10% at anytime prior to the time any person becomes an Acquiring Person.

On February 14, 2007, Cooper's Board of Directors increased the annual dividend rate of Cooper's common stock by \$.10 per share to \$.84.

Note 7. Segment Information

	Revenues			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in millions)			
Electrical Products	\$ 1,301.9	\$ 1,127.4	\$ 3,784.8	\$ 3,291.5
Tools	199.4	187.2	574.2	551.8
Total revenues	\$ 1,501.3	\$ 1,314.6	\$ 4,359.0	\$ 3,843.3

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	Operating Earnings			
	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,	September 30,	2007	2006
	2007	2006	2007	2006
	(in millions)			
Electrical Products	\$ 224.2	\$ 186.4	\$ 631.6	\$ 524.0
Tools	22.0	24.3	65.4	61.2
Segment operating earnings	246.2	210.7	697.0	585.2
General Corporate expenses	29.7	24.1	76.8	68.8
Total operating earnings	216.5	186.6	620.2	516.4
Income from Belden agreement	23.5		26.8	
Interest expense, net	12.3	14.0	38.1	38.5
Income from continuing operations before income taxes	\$ 227.7	\$ 172.6	\$ 608.9	\$ 477.9

Note 8. Pension and Other Postretirement Benefits

During June 2006, Cooper announced that, effective January 1, 2007, future benefit accruals would cease under the Cooper U. S. Salaried Pension Plan. Benefits earned through December 31, 2006 remain in each participant's Salaried Pension Plan account. The account balance will continue to earn interest credits until a participant is eligible for and elects to receive the plan benefit. Cooper recognized a curtailment loss of \$4.2 million in the second quarter of 2006 as a result of this action. Beginning in 2007, Cooper contributes cash equal to 3% of compensation to the Retirement Savings and Stock-Ownership Plan (CO-SAV). Cooper further increased the company-matching contribution under the CO-SAV plan to a dollar-for-dollar match up to 6% of employee contributions.

Cooper also announced the elimination of postretirement life insurance for active employees, effective January 1, 2007. As a result, Cooper recognized a curtailment gain of \$3.2 million in the second quarter of 2006.

	Pension Benefits			
	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,	September 30,	2007	2006
	2007	2006	2007	2006
	(in millions)			
Components of net periodic benefit cost:				
Service cost	\$ 1.0	\$ 4.1	\$ 3.0	\$ 12.5
Interest cost	10.2	10.4	30.6	31.1
Expected return on plan assets	(12.8)	(12.2)	(38.4)	(36.9)
Amortization of prior service cost	(0.5)	0.1	(1.5)	0.4
Recognized actuarial loss	2.7	2.9	8.0	10.1
Curtailment loss				4.2
Net periodic benefit cost	\$ 0.6	\$ 5.3	\$ 1.7	\$ 21.4

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	Other Postretirement Benefits			
	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in millions)			
Components of net periodic benefit cost:				
Service cost	\$	\$	\$	\$ 0.1
Interest cost	1.3	1.4	3.9	4.1
Amortization of prior service cost	(0.5)	(0.5)	(1.5)	(1.5)
Recognized actuarial gain	(0.6)	(0.7)	(1.8)	(2.1)
Curtailment gain				(3.2)
Net periodic benefit (income) cost	\$ 0.2	\$ 0.2	\$ 0.6	\$ (2.6)

Note 9. Income Taxes

The effective tax rate was 15.7% for the nine months ended September 30, 2007 and 25.6% for the nine months ended September 30, 2006.

As discussed below, the 2007 second quarter includes a \$63.5 million reduction of income taxes expense. Excluding the second quarter reduction and income from the Belden agreement for the nine months ended September 30, 2007, Cooper's effective tax rate for the nine months ended September 30, 2007 was 27.4%. The increase is primarily related to increased taxable earnings in 2007 without a corresponding increase in projected tax benefits.

The United States Internal Revenue Service (IRS) challenged Cooper's treatment of gains and interest deductions claimed on its 2000 through 2003 federal income tax returns, relating to transactions involving government securities. If the proposed adjustments were upheld, it would require Cooper to pay approximately \$93.7 million in taxes plus accrued interest. During the second quarter of 2007, the IRS and Cooper finalized a settlement regarding these transactions.

On February 1, 2007, the IRS issued its examination report for the 2002-2004 tax years. In addition to the finding related to transactions involving government securities discussed above, the IRS challenged Cooper's treatment of certain interest payments made during these years to a subsidiary. If the proposed adjustments were upheld, it would require Cooper to pay approximately \$140 million of federal withholding tax plus accrued interest. On May 2, 2007, the IRS issued a letter to Cooper accepting Cooper's position regarding treatment of these interest payments for the 2002 through 2004 tax years.

As a result of the settlements discussed above, Cooper recognized \$55.7 million of previously unrecognized tax benefits in the 2007 second quarter. A change in rates for the Texas margin tax and other developments in the 2007 second quarter represented the remaining \$7.8 million of income taxes expense reduction.

In addition to the items discussed above, Cooper believes it is reasonably possible that additional tax benefits could be recognized within the next 12 months as various tax audits are concluded and statutes expire. However, an estimate of the range of these benefits cannot be made.

The Internal Revenue Service has begun an examination of Cooper's 2005 and 2006 Federal income tax returns and Cooper is under examination by various United States State and Local taxing authorities as well as various taxing authorities in other countries. Cooper is no longer subject to U.S. Federal income tax examinations by tax authorities for years prior to 2005, and with few exceptions, Cooper is no longer subject to State and Local, or non-U.S. income tax examinations by tax authorities for years before 1999. Cooper fully cooperates with all audits, but defends existing positions vigorously. These audits are in various stages

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of completion. To provide for potential tax exposures, Cooper maintains a liability for unrecognized tax benefits, which management believes is adequate. The results of future audit assessments, if any, could have a material effect on Cooper's cash flows as these audits are completed.

Cooper adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. As a result of the implementation of Interpretation 48, the Company recognized a \$27.2 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction of the January 1, 2007 beginning retained earnings balance. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	(in millions)
Balance at January 1, 2007	\$ 122.8
Additions for tax positions of the current year	5.1
Additions for tax positions of prior years	3.3
Reduction in tax positions for statute expirations	(1.6)
Reduction in tax for audit settlements	(55.7)
Balance at September 30, 2007	\$ 73.9

The \$73.9 million of unrecognized tax benefits, if recognized, would favorably impact the effective tax rate.

Cooper recognizes interest and penalties accrued related to unrecognized tax benefits in income taxes expense. During the nine months ended September 30, 2007 and 2006, Cooper recognized \$3.3 million and \$3.5 million in interest and penalties, respectively. Cooper had \$13.8 million and \$15.5 million in interest and penalties accrued at September 30, 2007 and 2006, respectively.

Note 10. Net Income Per Common Share

On February 14, 2007, Cooper announced that the Board of Directors approved a two-for-one stock split of Cooper common stock. The record date for the stock split was February 28, 2007 and the distribution date was March 15, 2007. All share and per share information presented in this Form 10-Q has been retroactively restated to reflect the effect of the stock split.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in millions)			
Basic:				
Income from continuing operations	\$ 171.9	\$ 128.2	\$ 513.0	\$ 355.7
Charge from discontinued operations				20.3
Net income applicable to common stock	\$ 171.9	\$ 128.2	\$ 513.0	\$ 335.4
Weighted average common shares outstanding	182.4	182.8	183.0	184.0
Diluted:				
Income from continuing operations	\$ 171.9	\$ 128.2	\$ 513.0	\$ 355.7
Charge from discontinued operations				20.3
Net income applicable to common stock	\$ 171.9	\$ 128.2	\$ 513.0	\$ 335.4
Weighted average common shares outstanding	182.4	182.8	183.0	184.0
Incremental shares from assumed conversions:				

Options, performance-based stock awards and other employee awards	3.1	3.8	3.3	4.0
Weighted average common shares and common share equivalents	185.5	186.6	186.3	188.0

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

Note 11. 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,	
	2007	2006	2007	2006
	(in millions)			
Net income	\$ 171.9	\$ 128.2	\$ 513.0	\$ 335.4
Foreign currency translation gains	2.0	15.8	13.8	34.8
Change in fair value of derivatives	3.4	3.9	12.3	3.1
Net income and other nonowner changes in equity	\$ 177.3	\$ 147.9	\$ 539.1	\$ 373.3

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, 2007, a total of 143,118 Abex Claims were filed, of which 111,589 claims have been resolved leaving 31,529 Abex Claims pending at September 30, 2007, that are the responsibility of Federal-Mogul. During the three months ended September 30, 2007, 397 claims were filed and 505 claims were resolved. Since August 28, 1998, the average indemnity payment for resolved Abex Claims was \$2,181 before insurance. A total of \$124.0 million was spent on defense costs for the period August 28, 1998 through September 30, 2007. Historically, existing insurance coverage has provided 50% to 80% of the total defense and indemnity payments for Abex Claims. However, insurance recovery is currently at a lower percentage (approximately 30%) due to exhaustion of primary layers of coverage and litigation with certain excess insurers.

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 was appropriate to reflect the potential net impact of this issue.

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 of Federal-Mogul, its bankruptcy committees and the future claimants

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(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 would 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.

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 income tax benefit, in the fourth quarter of 2003.

In December 2005, Cooper announced that the Company and other parties involved in the resolution of the Federal-Mogul bankruptcy proceeding had reached an agreement regarding Cooper s participation in Federal Mogul s proposed 524 (g) asbestos trust. By participating in this trust, Cooper would resolve its liability for asbestos claims arising from Cooper s former Abex Friction Products business. The proposed settlement agreement was subject to court approval, approval of 75 percent of the current Abex asbestos claimants and certain other approvals. The settlement would resolve more than 38,000 pending Abex Claims as of December 2005. Future claims would be resolved through the bankruptcy trust, and Cooper would be protected against future claims by an injunction to be issued by the district court upon plan confirmation.

Key terms and aspects of the proposed settlement agreement included Cooper agreeing to pay \$130 million in cash into the trust, with \$115 million payable upon Federal-Mogul s emergence from bankruptcy. The remainder would be due on January 15, 2007, or upon emergence from bankruptcy, if later. Cooper would receive a total of \$37.5 million during the funding period from other parties associated with the Federal-Mogul bankruptcy. Cooper would further provide the trust 1.4 million shares of the Company s stock upon Federal-Mogul s emergence from bankruptcy.

The proposed settlement agreement also provided for further payments by Cooper subject to the amount and timing of insurance proceeds. Cooper agreed to make 25 annual payments of up to \$20 million each, reduced by certain insurance proceeds received by the trust. In years that the insurance proceeds exceed \$17 million, Cooper would be required to contribute \$3 million with the excess insurance proceeds carried over to the next year. The trust would retain 10 percent of the insurance proceeds for indemnity claims paid by the trust until Cooper s obligation is satisfied and would retain 15 percent thereafter. The agreement also provided for Cooper to receive the insurance proceeds related to indemnity and defense costs paid prior to the date a stay of current claims is entered by the bankruptcy court. Cooper would also be required to forego certain claims and objections in the Federal-Mogul bankruptcy proceedings. In addition, the parties involved had agreed to petition the court for a stay on all current claims outstanding.

Although the payments related to the settlement could extend to 25 years and the collection of insurance proceeds could extend beyond 25 years, the liability and insurance would be undiscounted on Cooper s balance sheet as the amount of the actual annual payments is not reasonably predictable.

A critical term of the proposed settlement was the issuance of a preliminary injunction staying all pending Abex asbestos claims. At a hearing on January 20, 2006, other parties to the bankruptcy proceedings were unable to satisfy the court s requirements to grant the required preliminary injunction. As a result, the proposed settlement agreement required renegotiation of certain terms. The final determination of whether Cooper would participate in the Federal-Mogul 524(g) trust was unknown. However, Cooper management concluded that, at the date of the filing of its 2005 Form 10-K, the most likely outcome in the range of potential outcomes was a revised settlement approximating the December 2005 proposed settlement. Accordingly, Cooper recorded a \$227.2 million after-tax discontinued operations charge, net of a \$127.8 million income tax benefit, in the fourth quarter of 2005.

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The fourth quarter 2005 charge to discontinued operations included payments to a 524(g) trust over 25 years that were undiscounted, and the insurance recoveries only included recoveries where insurance in place agreements, settlements or policy recoveries were probable. If the negotiations with the Representatives in early 2004 had resulted in an agreement, Cooper would have paid all the consideration when Federal-Mogul emerged from bankruptcy and the 524(g) trust was formed and would have relinquished all rights to insurance. The lack of discounting and the limited recognition of insurance recoveries in the fourth quarter 2005 charge to discontinued operations were a significant component of the increase in the accrual for discontinued operations. While it is not possible to quantify, the accrual for discontinued operations also includes a premium for resolving the inherent uncertainty associated with resolving Abex Claims through the tort system. If Cooper is unable to reach a settlement to participate in the Federal-Mogul 524(g) trust, the accrual for discontinued operations potentially may have to be adjusted to the estimated liability and related insurance recoveries through the tort system. There are numerous assumptions that are required to project the liability in the tort system and Cooper has not completed the analysis and determined the liability that would be recorded under this scenario.

Cooper, through Pneumo-Abex LLC, has access to Abex insurance policies with remaining limits on policies with solvent insurers in excess of \$750 million. Cooper included insurance recoveries of approximately \$215 million pre-tax in the fourth quarter 2005 charge to discontinued operations discussed above. Cooper believes that it is likely that additional insurance recoveries will be recorded in the future as new insurance in place agreements are consummated and settlements with insurance carriers are completed. However, extensive litigation with the insurance carriers may be required to receive those additional recoveries.

On July 7, 2006, Cooper announced a revised agreement had been reached regarding Cooper's participation in Federal-Mogul's 524(g) trust. The revised proposed settlement agreement remains subject to court approval and to certain other approvals.

Key terms and aspects of the revised proposed settlement agreement include Cooper agreeing to pay \$256 million in cash into the trust on the date Federal-Mogul emerges from bankruptcy, which includes elimination of the contribution of 1.4 million common shares to the trust by increasing the cash contribution. Removing Cooper common stock as a component of the revised settlement agreement eliminates additional charges and reversals of charges that may have occurred to account for any changes in the market value of Cooper stock. Cooper has or will receive \$37.5 million from other parties toward its cash obligation.

As in the December 2005 agreement, Cooper has agreed to make 25 annual payments of up to \$20 million each to the trust with such payments being reduced by insurance proceeds. The minimum annual payment of \$3 million in the December 2005 agreement has been eliminated. However, Cooper has agreed to make advances, beginning in 2015 through 2021, in the event the trust is unable to pay outstanding qualified claims at 100 percent of the value provided for in the trust agreement. In the event that advances are made by Cooper, they will accrue interest at 5 percent per annum, and will be repaid in years where excess funds are available in the trust or credited against the future year annual payments. The maximum advances are \$36.6 million.

Cooper will pay all defense costs through the date Federal-Mogul emerges from bankruptcy and will be reimbursed for indemnity payments to the extent such payments are eligible for payment from the trust. Cooper will retain the rights to receive the insurance proceeds related to indemnity and defense costs paid prior to the date Federal-Mogul emerges from bankruptcy. For claims paid by the trust, the trust will retain 10 percent of any reimbursed insurance proceeds for the first 25 years and thereafter will retain 15 percent.

As in the December 2005 proposed agreement, Cooper will forego certain claims and objections in the Federal-Mogul bankruptcy proceedings. However, under the revised proposed agreement, which is subject to court approval, in the event that Cooper's participation in the Federal-Mogul 524(g) trust is not approved for any reason, Cooper would receive a cash payment of \$138 million on the date Federal-Mogul emerges from bankruptcy and 20 percent of any insurance policy settlements related to the former Wagner

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business purchased by Federal-Mogul in 1998. If Cooper participates in the trust, it will receive 12 percent of any Wagner insurance settlements.

Accordingly, Cooper recorded a \$20.3 million after-tax discontinued operations charge, net of an \$11.4 million income tax benefit, in the second quarter of 2006.

The revised proposed settlement agreement was incorporated into Federal-Mogul's Fourth Amended Joint Plan of Reorganization filed on November 21, 2006.

On February 2, 2007, the U.S. Bankruptcy Court for the District of Delaware approved the adequacy of Federal-Mogul's Supplemental Disclosure Statement describing the Fourth Amended Joint Plan of Reorganization. The Court also approved the Voting Procedures and ordered that the voting period would expire on April 6, 2007. At a hearing on April 13, Federal-Mogul announced that the Abex settlement had received a favorable vote of approximately 94%, well in excess of the required vote. In addition, any objections to the Fourth Amended Plan were filed with the Court by April 24, 2007 and hearings on confirmation of the Plan were held the week of July 9th. The Court also held hearings on October 1 and 2, 2007 for final briefs and hearings. At the conclusion of these hearings, the Court neither approved or rejected the revised proposed settlement agreement. If the Plan is confirmed, Federal-Mogul could emerge from bankruptcy by year-end 2007.

From a cash flow perspective, Cooper management continues to believe that a settlement on the terms of the revised agreement would allow Cooper to continue to grow through acquisitions and return cash to shareholders through dividends and stock repurchases. The settlement agreement remains subject to bankruptcy court approval 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 \$521.0 million at September 30, 2007 and \$529.6 million at December 31, 2006.

Note 13. Consolidating Financial Information

Cooper and certain of its principal operating subsidiaries (the Guarantors) fully and unconditionally guarantee, on a joint and several basis, the registered debt securities of Cooper Industries, LLC and Cooper US, Inc. The following condensed consolidating financial information is included so that separate financial statements of Cooper Industries, LLC, Cooper US, Inc. or the Guarantors 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.

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Consolidating Income Statements
Three Months Ended September 30, 2007
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc.	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$	\$	\$ 956.5	\$ 622.0	\$ (77.2)	\$ 1,501.3
Cost of sales			1.0	664.2	420.1	(77.2)	1,008.1
Selling and administrative expenses	1.8	8.9	17.1	140.2	108.7		276.7
Income from Belden agreement					23.5		23.5
Interest expense, net	(0.3)	5.6	8.1		(1.1)		12.3
Equity in earnings of subsidiaries, net of tax	211.0	10.0	112.8	26.3	116.7	(476.8)	
Intercompany income (expense)	(8.8)	(9.2)	15.7	(39.6)	70.6	(28.7)	
Income (loss) from continuing operations before income taxes	200.7	(13.7)	102.3	138.8	305.1	(505.5)	227.7
Income tax expense (benefit)		(9.4)	(14.6)	42.4	37.4		55.8
Net income (loss)	\$ 200.7	\$ (4.3)	\$ 116.9	\$ 96.4	\$ 267.7	\$ (505.5)	\$ 171.9

Three Months Ended September 30, 2006
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc.	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$	\$	\$ 860.9	\$ 508.3	\$ (54.6)	\$ 1,314.6
Cost of sales		(0.2)	0.5	598.5	343.0	(54.6)	887.2
Selling and administrative expenses	2.0	4.9	16.8	126.0	91.1		240.8
Interest expense, net	(0.2)	11.7	3.6		(1.1)		14.0
Equity in earnings of subsidiaries, net of tax	159.9	(136.8)	98.4	22.3	96.2	(240.0)	
Intercompany income (expense)	(4.9)	145.0	3.0	(105.5)	(12.7)	(24.9)	
Income (loss) from continuing operations	153.2	(8.2)	80.5	53.2	158.8	(264.9)	172.6

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before income taxes								
Income tax expense (benefit)		(7.7)	(15.9)	11.7	56.3			44.4
Net income (loss)	\$ 153.2	\$ (0.5)	\$ 96.4	\$ 41.5	\$ 102.5	\$ (264.9)	\$ 128.2	

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Consolidating Income Statements
Nine Months Ended September 30, 2007
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc.	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$	\$	\$ 2,818.1	\$ 1,741.2	\$ (200.3)	\$ 4,359.0
Cost of sales		0.1	1.8	1,967.8	1,168.2	(200.3)	2,937.6
Selling and administrative expenses	7.2	16.6	51.6	410.7	315.1		801.2
Income from Belden agreement					26.8		26.8
Interest expense, net	(1.3)	28.0	15.5		(4.1)		38.1
Equity in earnings of subsidiaries, net of tax	628.6	31.0	319.5	71.4	396.6	(1,447.1)	
Intercompany income (expense)	(23.7)	(18.0)	44.1	(123.4)	207.0	(86.0)	
Income (loss) from continuing operations before income taxes	599.0	(31.7)	294.7	387.6	892.4	(1,533.1)	608.9
Income tax expense (benefit)		(24.2)	(102.0)	119.2	102.9		95.9
Income (loss) from continuing operations	599.0	(7.5)	396.7	268.4	789.5	(1,533.1)	513.0
Charge related to discontinued operations, net of income taxes							
Net income (loss)	\$ 599.0	\$ (7.5)	\$ 396.7	\$ 268.4	\$ 789.5	\$ (1,533.1)	\$ 513.0

Nine Months Ended September 30, 2006
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc.	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Revenues	\$	\$	\$	\$ 2,529.1	\$ 1,486.5	\$ (172.3)	\$ 3,843.3
Cost of sales		(0.6)	0.5	1,767.3	1,009.4	(172.3)	2,604.3
Selling and administrative expenses	7.5	12.6	48.4	385.8	268.3		722.6
Interest expense, net	(0.5)	33.5	8.9		(3.4)		38.5

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Equity in earnings of subsidiaries, net of tax	428.2	(118.3)	247.7	69.5	246.6	(873.7)	
Intercompany income (expense)	(12.2)	138.0	10.8	(318.3)	255.2	(73.5)	
Income (loss) from continuing operations before income taxes	409.0	(25.8)	200.7	127.2	714.0	(947.2)	477.9
Income tax expense (benefit)		(21.5)	(46.0)	23.6	166.1		122.2
Income (loss) from continuing operations	409.0	(4.3)	246.7	103.6	547.9	(947.2)	355.7
Charge related to discontinued operations, net of income taxes		20.3					20.3
Net income (loss)	\$ 409.0	\$ (24.6)	\$ 246.7	\$ 103.6	\$ 547.9	\$ (947.2)	\$ 335.4

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Consolidating Balance Sheets
September 30, 2007
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc.	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Cash and cash equivalents	\$ 27.2	\$	\$ 73.4	\$ (1.2)	\$ 208.0	\$	\$ 307.4
Receivables	0.1		0.1	586.5	530.6		1,117.3
Inventories				360.1	305.8		665.9
Deferred income taxes and other current assets	(0.1)	122.4	41.7	52.5	45.8		262.3
Total current assets	27.2	122.4	115.2	997.9	1,090.2		2,352.9
Property, plant and equipment, less accumulated depreciation			67.9	324.0	309.9		701.8
Goodwill				1,251.4	1,212.0		2,463.4
Investment in subsidiaries	4,993.1	604.6	4,511.1	1,275.5	2,345.1	(13,729.4)	
Investment in parent			2,872.2		312.7	(3,184.9)	
Intercompany accounts receivable		798.9		1,160.6	766.9	(2,726.4)	
Intercompany notes receivable	50.0	25.8	1,077.3	0.8	4,362.8	(5,516.7)	
Other noncurrent assets		13.7	10.7	52.2	173.5		250.1
Total assets	\$ 5,070.3	\$ 1,565.4	\$ 8,654.4	\$ 5,062.4	\$ 10,573.1	\$ (25,157.4)	\$ 5,768.2
Short-term debt	\$	\$	\$	\$	\$ 15.3	\$	\$ 15.3
Accounts payable	38.1	7.4	16.4	227.5	255.4		544.8
Accrued liabilities	6.0	41.9	75.5	240.5	181.8		545.7
Current discontinued operations liability		191.0					191.0
Current maturities of long-term debt		100.0					100.0
Total current liabilities	44.1	340.3	91.9	468.0	452.5		1,396.8

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Long-term debt		277.2	624.1	8.0	0.7		910.0
Intercompany accounts payable	16.4		2,708.5			(2,724.9)	
Intercompany notes payable	758.6	685.0	1,916.3	1,741.8	415.0	(5,516.7)	
Long-term discontinued operations liability		330.0					330.0
Other long-term liabilities		(92.6)	169.4	183.3	156.8		416.9
Total liabilities	819.1	1,539.9	5,510.2	2,401.1	1,025.0	(8,241.6)	3,053.7
Class A common stock	2.1					(0.3)	1.8
Class B common stock	1.1					(1.1)	
Subsidiary common stock					501.1	(501.1)	
Capital in excess of par value	3,293.0		670.2	1,445.4	5,848.2	(11,137.7)	119.1
Retained earnings	923.2	117.2	2,586.4	1,189.1	3,250.1	(5,372.0)	2,694.0
Accumulated other non-owner changes in equity	31.8	(91.7)	(112.4)	26.8	(51.3)	96.4	(100.4)
Total shareholders equity	4,251.2	25.5	3,144.2	2,661.3	9,548.1	(16,915.8)	2,714.5
Total liabilities and shareholders equity	\$ 5,070.3	\$ 1,565.4	\$ 8,654.4	\$ 5,062.4	\$ 10,573.1	\$ (25,157.4)	\$ 5,768.2

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Consolidating Balance Sheets
December 31, 2006
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc.	Cooper Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Cash and cash equivalents	\$ 11.5	\$	\$ 204.9	\$ (2.8)	\$ 209.9	\$	\$ 423.5
Receivables	0.2		0.4	469.3	426.1		896.0
Inventories				348.6	259.0		607.6
Deferred income taxes and other current assets	1.1	141.4	51.9	25.6	46.6		266.6
Total current assets	12.8	141.4	257.2	840.7	941.6		2,193.7
Property, plant and equipment, less accumulated depreciation			49.8	320.0	295.6		665.4
Goodwill				1,025.0	1,311.9		2,336.9
Investment in subsidiaries	3,554.6	570.0	4,081.8	1,219.2	1,346.2	(10,771.8)	
Investment in parent			2,811.2		312.8	(3,124.0)	
Intercompany accounts receivable	686.3	806.5		1,289.0	598.6	(3,380.4)	
Intercompany notes receivable	91.8	24.9	758.5	0.7	4,067.3	(4,943.2)	
Other noncurrent assets		20.0	2.0	23.0	133.8		178.8
Total assets	\$ 4,345.5	\$ 1,562.8	\$ 7,960.5	\$ 4,717.6	\$ 9,007.8	\$ (22,219.4)	\$ 5,374.8
Short-term debt	\$	\$	\$	\$	\$ 5.0	\$	\$ 5.0
Accounts payable	32.1	17.2	4.5	225.9	192.0		471.7
Accrued liabilities	5.2	43.4	84.5	230.0	159.2		522.3
Current discontinued operations liability		199.6					199.6
Current maturities of long-term debt		300.0			0.7		300.7
Total current liabilities	37.3	560.2	89.0	455.9	356.9		1,499.3

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Long-term debt		370.5	323.9	8.0	0.4		702.8
Intercompany accounts payable			3,380.4			(3,380.4)	
Intercompany notes payable	552.3	329.9	1,901.4	1,707.3	452.3	(4,943.2)	
Long-term discontinued operations liability		330.0					330.0
Other long-term liabilities		(57.7)	119.2	172.9	133.0		367.4
Total liabilities	589.6	1,532.9	5,813.9	2,344.1	942.6	(8,323.6)	2,899.5
Class A common stock	1.0					(0.1)	0.9
Class B common stock	0.5					(0.5)	
Subsidiary common stock					500.3	(500.3)	
Capital in excess of par value	3,392.0		56.2	1,431.5	5,174.7	(9,776.0)	278.4
Retained earnings	358.4	128.3	2,230.1	943.3	2,485.6	(3,821.3)	2,324.4
Accumulated other non-owner changes in equity	4.0	(98.4)	(139.7)	(1.3)	(95.4)	202.4	(128.4)
Total shareholders equity	3,755.9	29.9	2,146.6	2,373.5	8,065.2	(13,895.8)	2,475.3
Total liabilities and shareholders equity	\$ 4,345.5	\$ 1,562.8	\$ 7,960.5	\$ 4,717.6	\$ 9,007.8	\$ (22,219.4)	\$ 5,374.8

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Consolidating Statements of Cash Flows
Nine Months Ended September 30, 2007
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc.	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	\$ (19.7)	\$ (61.8)	\$ 83.5	\$ 135.1	\$ 326.2	\$	\$ 463.3
Cash flows from investing activities:							
Capital expenditures			(26.5)	(39.4)	(25.1)		(91.0)
Cash paid for acquired businesses				(75.0)	(119.5)		(194.5)
Investment in affiliates			(45.8)	(17.1)		62.9	
Loans to affiliates	(110.1)		(355.1)		(859.3)	1,324.5	
Repayments of loans from affiliates	151.8				603.5	(755.3)	
Dividends from affiliates			79.3	33.8	6.7	(119.8)	
Proceeds from sale of property, plant and equipment and other				0.4	0.4		0.8
Net cash provided by (used in) investing activities	41.7		(348.1)	(97.3)	(393.3)	512.3	(284.7)
Cash flows from financing activities:							
Proceeds from issuance of debt			300.0		6.7		306.7
Debt issue costs			(2.7)				(2.7)
Proceeds from debt derivatives			10.0				10.0
Repayments of debt		(300.0)			(3.0)		(303.0)
Borrowings from affiliates	622.7	354.2	347.6			(1,324.5)	
Repayments of loans to affiliates	(416.4)		(337.2)		(1.7)	755.3	
Other intercompany financing activities	182.5	7.6	(177.0)	(36.2)	23.1		
Dividends	(116.2)						(116.2)
	(86.0)				(33.8)	119.8	

Dividends paid to affiliates							
Purchase of common shares	(192.9)		(81.9)				(274.8)
Excess tax benefits from stock options and awards			19.6				19.6
Issuance of stock					62.9	(62.9)	
Employee stock plan activity and other			54.7				54.7
Net cash provided by (used in) financing activities	(6.3)	61.8	133.1	(36.2)	54.2	(512.3)	(305.7)
Effect of exchange rate changes on cash and cash equivalents					11.0		11.0
Increase (decrease) in cash and cash equivalents	15.7		(131.5)	1.6	(1.9)		(116.1)
Cash and cash equivalents, beginning of period	11.5		204.9	(2.8)	209.9		423.5
Cash and cash equivalents, end of period	\$ 27.2	\$	\$ 73.4	\$ (1.2)	\$ 208.0	\$	\$ 307.4

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Consolidating Statements of Cash Flows
Nine Months Ended September 30, 2006
(in millions)

	Cooper	Cooper Industries, LLC	Cooper US, Inc	Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	\$ (15.8)	\$ (20.8)	\$ 45.7	\$ (23.4)	\$ 389.0	\$	\$ 374.7
Cash flows from investing activities:							
Capital expenditures			(10.5)	(24.6)	(23.0)		(58.1)
Cash paid for acquired businesses			(42.4)	(230.8)	(6.2)		(279.4)
Investment in affiliates	(12.3)		(36.0)			48.3	
Loans to affiliates	(102.0)		(36.9)		(384.4)	523.3	
Repayments of loans from affiliates	64.0				101.2	(165.2)	
Dividends from affiliates	5.0		68.6		5.9	(79.5)	
Other				0.8	17.6		18.4
Net cash provided by (used in) investing activities	(45.3)		(57.2)	(254.6)	(288.9)	326.9	(319.1)
Cash flows from financing activities:							
Repayments of debt		(11.0)			(2.3)		(13.3)
Borrowings from affiliates	197.2	36.8	289.2		0.1	(523.3)	
Repayments of loans to affiliates	(47.3)		(73.6)	(2.4)	(41.9)	165.2	
Other intercompany financing activities	9.5	(5.0)	(112.9)	281.6	(173.2)		
Dividends	(103.0)						(103.0)
Dividends paid to affiliates	(73.5)				(6.0)	79.5	
Subsidiary purchase of parent shares	14.9		(276.6)				(261.7)
Issuance of stock					48.3	(48.3)	
Excess tax benefits from stock options and awards			21.4				21.4
			81.1				81.1

Employee stock plan
activity and other

Net cash provided by
(used in) financing
activities

(2.2) 20.8 (71.4) 279.2 (175.0) (326.9) (275.5)

Effect of exchange
rate changes on cash
and cash equivalents

11.0 11.0

Increase (decrease) in
cash and cash
equivalents

(63.3) (82.9) 1.2 (63.9) (208.9)

Cash and cash
equivalents,
beginning of period

64.1 144.4 (3.5) 247.8 452.8

Cash and cash
equivalents, end of
period

\$ 0.8 \$ 61.5 \$ (2.3) \$ 183.9 \$ 243.9

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
Results of Operations**Three Months Ended September 30, 2007 Compared With Three Months Ended September 30, 2006**

Income from continuing operations for the third quarter of 2007 was \$171.9 million on revenues of \$1,501.3 million compared with 2006 third quarter income from continuing operations of \$128.2 million on revenues of \$1,314.6 million. Third quarter diluted earnings per share from continuing operations increased to \$.93 in 2007 from \$.69 in 2006. Third quarter 2007 diluted earnings per share from continuing operations included \$23.5 million in income under an agreement with Belden and \$6.4 million (pre-tax) of expenses related to certain legal matters. The net of these items increased third quarter 2007 diluted earnings per share from continuing operations by \$.10.

Revenues:

Revenues for the third quarter of 2007 increased 14% compared to the third quarter of 2006. The impact of acquisitions and currency translation increased reported revenues by approximately 5% for the quarter.

Electrical Products segment revenues increased 15% compared to the third quarter of 2006. The impact of acquisitions increased revenues over 3% for the quarter and favorable currency translation increased reported revenues by less than 2% for the quarter. Increased revenues were driven by strength in the utility and industrial markets, continued strong international growth, and solid demand from U.S. nonresidential construction markets. These increases were partially offset by the soft U.S. residential markets.

Tools segment revenues for the third quarter of 2007 increased 7% from the third quarter of 2006. Favorable currency translation increased revenues by approximately 3% for the quarter. Solid demand from the aerospace industry and shipments of assembly systems was partially offset by soft demand from motor vehicle end markets and U.S. residential markets.

Costs and Expenses:

Cost of sales, as a percentage of revenues, was 67.1% for the third quarter of 2007 compared to 67.5% for the comparable 2006 quarter. The decline in cost of sales percentage resulted from leverage of fixed costs on higher volume, and execution on productivity improvements initiatives.

Electrical Products segment cost of sales, as a percentage of revenues, was 66.6% for the third quarter of 2007 compared to 67.5% for the third quarter 2006. Cost of sales as a percentage of revenues was down year over year due to benefits realized through productivity initiatives and production leverage on higher volume, partially offset by the impact of acquisitions. Tools segment cost of sales, as a percentage of revenues, was 70.1% for the third quarter of 2007 compared to 67.3% for the third quarter of 2006. The increase in the cost of sales percentage was associated with shipments of low-margin assembly systems and the sales mix of hand and power tools. The assembly system business is transitioning from complete assembly systems to fastening stations and smaller installations.

Selling and administrative expenses, as a percentage of revenues, for the third quarter of 2007 were 18.4% compared to 18.3% for the third quarter of 2006. The increase was primarily related to incremental legal costs recognized during the 2007 third quarter.

Electrical Products segment selling and administrative expenses, as a percentage of revenues, for the third quarter of 2007 were 16.2% compared to 16.0% for the third quarter of 2006. The increase was due to

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investment in strategic growth initiatives, as well as the impact of recent acquisitions, partially offset by productivity gains.

Tools segment selling and administrative expenses, as a percentage of revenues, for the third quarter of 2007 were 18.9% compared to 19.7% for the third quarter of 2006. The decrease in selling and administrative expenses percentage was the result of productivity efforts, as well as leverage on higher sales volumes.

Income of \$23.5 million from the Belden agreement was recognized in the 2007 third quarter. In 1993, Cooper completed an initial public offering of the stock of Belden, formerly a division of Cooper. Under the agreement, Belden and Cooper made an election that increased the tax basis of certain Belden assets. Belden is required to pay Cooper ninety percent of the amount by which Belden has actually reduced tax payments that would otherwise have been payable if the increase in the tax basis of assets had not occurred, as realized principally over fifteen years. If Belden does not have sufficient future taxable income, it is possible that Belden will not be able to utilize the tax deductions arising from the increase in the tax basis of the assets resulting in a tax loss carryforward. Belden is not obligated to pay Cooper until a tax loss carryforward is utilized. Belden can carry any loss forward twenty years to offset future taxable income. Cooper estimates that between \$30 and \$40 million in future payments potentially remain under the Belden agreement. The timing and ultimate receipt of future payments are contingent upon the ultimate taxable income Belden reports each year.

Interest expense, net for the third quarter of 2007 decreased \$1.7 million from the 2006 third quarter, as a result of lower average interest rates on reduced borrowings. Average debt balances were \$1.04 billion and \$1.07 billion and average interest rates were 5.4% and 5.8% during the third quarter of 2007 and 2006, respectively.

Operating Earnings:

Electrical Products segment third quarter 2007 operating earnings increased 20% to \$224.2 million from \$186.4 million for the same quarter of last year. The increase was a result of leverage on fixed costs from higher volumes, price realization offsetting production material cost inflation and the impact of productivity improvement initiatives.

Tools segment third quarter 2007 operating earnings decreased 9% to \$22.0 million compared to \$24.3 million in the third quarter of 2006. The decrease primarily reflects shipments of low-margin assembly systems and the sales mix of power and hand tools.

General Corporate expense increased \$5.6 million to \$29.7 million during the third quarter of 2007 compared to \$24.1 million during the third quarter of 2006. This increase resulted from expenses related to certain legal matters.

Income Taxes:

The effective tax rate was 24.5% for the third quarter of 2007 and 25.7% for the third quarter of 2006. The rate decrease is due to the 2007 third quarter income from the Belden agreement being taxed in a foreign jurisdiction at a significantly lower rate than the U.S. statutory rate. Excluding the effect of the Belden income, Cooper's effective tax rate for the three months ended September 30, 2007 was 27.3%. This increase is primarily related to increased taxable earnings in 2007 without a corresponding increase in projected tax benefits.

Nine Months Ended September 30, 2007 Compared With Nine Months Ended September 30, 2006

Income from continuing operations for the first nine months of 2007 was \$513.0 million on revenues of \$4,359.0 million compared with first nine months of 2006 income from continuing operations of \$355.7 million on revenues of \$3,843.3 million. First nine months diluted earnings per share from continuing

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operations increased to \$2.75 in 2007 from \$1.89 in 2006. First nine months of 2007 diluted earnings per share from continuing operations included \$26.8 million of income from the Belden agreement and \$8.8 million (pre-tax) of expenses related to certain legal matters or a net of \$.10 increase per share, as well as \$63.5 million or \$.34 per share of income tax adjustments.

Revenues:

Revenues for the first nine months of 2007 increased 13% compared to the first nine months of 2006. The impact of acquisitions and currency translation increased revenues by approximately 5%.

Electrical Products segment revenues for the first nine months of 2007 increased 15% compared to the first nine months of 2006. The impact of acquisitions increased revenue by 4% and currency translation had a 1% favorable effect on revenues in the first nine months of the year. Sales growth was a result of strong demand from the utility and industrial markets, international expansion, and solid demand from U.S. nonresidential construction. The soft U.S. residential markets partially offset these increases.

Tools segment revenues for the first nine months of 2007 increased 4% compared to the first nine months of 2006. Currency translation impact on revenues for the first nine months of 2007 was nearly 3%. Sales increases driven by solid demand from aerospace were partially offset by soft demand within the motor vehicle end markets and residential markets.

Costs and Expenses:

Cost of sales, as a percentage of revenues, was 67.4% for the first nine months of 2007 compared to 67.8% for the comparable 2006 period. The decrease in the cost of sales percentage was primarily a result of fixed cost leverage on higher volume and benefits from productivity improvements initiatives.

Electrical Products segment cost of sales, as a percentage of revenues, was 67.2% for the first nine months of 2007 compared to 67.6% for the first nine months of 2006. The decrease in the cost of sales percentage was primarily the result of productivity initiatives and production leverage on higher volume, partially offset by the impact of acquisitions.

Tools segment cost of sales, as a percentage of revenues, was 68.7% for the first nine months of 2007 compared to 69.0% for the same period of 2006. The decrease in cost of sales percentage reflects operating efficiency gains from productivity improvements.

Selling and administrative expenses, as a percentage of revenues, for the first nine months of 2007 were 18.4% compared to 18.8% for the first nine months of 2006. The decrease is primarily due to leverage on higher sales volumes.

Electrical Products segment selling and administrative expenses, as a percentage of revenues, for the first nine months of 2007 were 16.1% compared to 16.5% for the first nine months of 2006. The decrease in selling and administrative expenses percentage is primarily due to sales volume leverage and productivity initiatives.

Tools segment selling and administrative expenses, as a percentage of revenues, for the first nine months of 2007 and 2006 were 19.9%.

Income from the Belden agreement was \$26.8 million for the nine months ended September 30, 2007 compared to \$0 for the same period in 2006. In 1993, Cooper completed an initial public offering of the stock of Belden, formerly a division of Cooper. Under the agreement, Belden and Cooper made an election that increased the tax basis of certain Belden assets. Belden is required to pay Cooper ninety percent of the amount by which Belden has actually reduced tax payments that would otherwise have been payable if the increase in the tax basis of assets had not occurred, as realized over principally fifteen years. If Belden does not have sufficient future taxable income, it is possible that Belden will not be able to utilize the tax

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deductions arising from the increase in the tax basis of the assets resulting in a tax loss carryforward. Belden is not obligated to pay Cooper until a tax loss carryforward is utilized. Belden can carry any loss forward twenty years to offset future taxable income. Cooper estimates that between \$30 and \$40 million in future payments potentially remain under the Belden agreement. The timing and ultimate receipt of future payments are contingent upon the ultimate taxable income Belden reports each year.

Interest expense, net for the first nine months of 2007 decreased \$0.4 million from the 2006 first nine months as a result of higher interest income recognized on invested cash balances. Average debt balances were \$1.05 billion and \$1.04 billion for the first nine months of 2007 and 2006, and the average interest rate was 5.7% for both periods.

Operating Earnings:

Electrical Products segment first nine months 2007 operating earnings increased 21% to \$631.6 million from \$524.0 million for the same period of last year. The increase was primarily due to sales volume leverage and productivity initiatives.

Tools segment first nine months of 2007 operating earnings increased 7% to \$65.4 million compared to \$61.2 million in the same period of 2006. The increase reflects sales volume growth and productivity gains.

General Corporate expense increased \$8.0 million to \$76.8 million during the first nine months of 2007 compared to \$68.8 million during the same period of 2006. This increase primarily resulted from incremental expenses associated with certain legal matters.

Income Taxes:

The effective tax rate for the nine months ended September 30, 2007 was 15.7% and 25.6% for the nine months ended September 30, 2006. The rate decrease is primarily related to a 2007 second quarter \$63.5 million reduction of income tax expense. Cooper finalized settlements with the Internal Revenue Service related to the 2000 through 2004 tax years in the 2007 second quarter. Previously unrecognized tax benefits of \$55.7 million were therefore recognized in the quarter. Change in rates for the Texas margin tax representing \$7.8 million of income tax reduction, and the income from the Belden agreement being taxed in a foreign jurisdiction at a rate significantly lower than U.S. statutory rates also contributed to the lower effective tax rate in 2007. Excluding the impact of these items, Cooper's effective tax rate for the nine months ended September 30, 2007 was 27.4%. This increase is primarily related to increased taxable earnings in 2007 without a corresponding increase in projected tax benefits.

Charge Related to Discontinued Operations:

In the second quarter of 2006, Cooper recorded an additional charge of \$20.3 million, net of an \$11.4 million income tax benefit (or \$.11 per diluted share) related to potential asbestos obligations regarding the Automotive Products segment, which was sold in 1998. See Note 12 of the Notes to the Consolidated Financial Statements.

Liquidity and Capital Resources***Liquidity:***

Cooper's operating working capital (defined as receivables and inventories less accounts payable) increased \$206 million during the first nine months of 2007. The increase included a \$221 million increase in receivables and a \$58 million increase in inventories, partially offset by a \$73 million increase in accounts payable, which were all driven by increased sales volume and the impact of 2007 acquisitions. The increase in inventories was partially offset by an \$11 million increase in the allowance for excess and obsolete inventories. Operating working capital turnover (defined as annualized revenues divided by average

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quarterly operating working capital) for the first nine months of 2007 of 5.1 turns increased from 4.9 turns in the same period of 2006 and was primarily due to revenues growing at a higher rate than operating working capital. Cooper continues to execute productivity initiatives focused on improving its working capital position.

Cash provided by operating activities was \$463 million for the first nine months of 2007. This cash, plus \$116 million of cash and cash equivalents, \$314 million of proceeds from debt issuances and \$55 million of cash received from employee stock option exercise activity were primarily used to fund capital expenditures of \$91 million, acquisitions of \$195 million, dividends of \$116 million, debt repayments of \$303 million and share purchases of \$275 million.

Cash provided by operating activities was \$375 million during the first nine months of 2006. This cash, plus an additional \$209 million of cash and cash equivalents and \$81 million of cash received from employee stock option exercise activity were primarily used to fund capital expenditures of \$58 million, acquisitions of \$279 million, dividends of \$103 million and share purchases of \$262 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 \$6.3 million during the nine months ended September 30, 2006. All spending related to the accruals was completed as of December 31, 2006.

Cooper currently anticipates a continuation of its long-term ability to annually generate in excess of \$300 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 has reached a revised agreement 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. Cooper anticipates that any settlement would be funded from operating cash flows, existing cash and commercial paper proceeds (if required).

Capital Resources:

Cooper targets a 30% to 40% debt-to-total capitalization ratio. Excess cash flows are utilized to fund acquisitions or to purchase shares of Cooper common stock. Cooper's debt-to-total capitalization ratio was 27.4% at September 30, 2007, 28.9% at December 31, 2006 and 30.1% at September 30, 2006.

At September 30, 2007 and December 31, 2006, Cooper had cash and cash equivalents of \$307.4 million and \$423.5 million, respectively. At September 30, 2007 and December 31, 2006, Cooper had short-term debt of \$15.3 million and \$5.0 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, 2007, Cooper had a \$500 million committed credit facility, which matures in November 2009. Short-term debt to the extent not backed up by cash, reduces the amount of additional liquidity provided by the committed credit facility.

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

Cooper's access to the commercial paper market could be adversely affected by a change in the credit ratings assigned to its commercial paper. Should Cooper's access to the commercial paper market be

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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.

Cooper's \$300 million, 5.25% senior unsecured notes, which were issued in June 2002, matured in July 2007. On June 18, 2007, Cooper's wholly-owned subsidiary, Cooper US, Inc. issued \$300 million of senior unsecured notes due in 2017. The fixed rate notes have an interest coupon of 6.10%. Proceeds from the financing were used to repay the maturing 5.25% notes. Combined with interest rate hedges implemented in anticipation of the offering, the 6.10% notes will have an effective annual cost to Cooper of 5.75%.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

As of September 30, 2007, 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, 2006.

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:

	September 30,	
	2007	2006
	(in millions)	
Electrical Products	\$ 640.7	\$ 593.4
Tools	79.4	75.5
	\$ 720.1	\$ 668.9

Recently Issued Accounting Standards

See Note 1 of the Notes to the Consolidated Financial Statements.

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, any statements regarding future revenues, cost and expenses, earnings, earnings per share, margins, cash flows, dividends 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, transportation, and energy costs, industry competition, the ability to execute and realize the expected benefits from strategic initiatives including revenue growth plans and cost-control and productivity improvement programs, the magnitude of any disruptions from manufacturing rationalizations and the implementation of the Enterprise Business System, changes in mix of products sold, mergers and acquisitions and their integration into Cooper, the timing and amount of any stock repurchases, changes in financial markets including 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. 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, 2007, a total of 143,118 Abex Claims were filed, of which 111,589 claims have been resolved leaving 31,529 Abex Claims pending at September 30, 2007, that are the responsibility of Federal-Mogul. During the three months ended September 30, 2007, 397 claims were filed and 505 claims were resolved. Since August 28, 1998, the average indemnity payment for resolved Abex Claims was \$2,181 before insurance. A total of \$124.0 million was spent on defense costs for the period August 28, 1998 through September 30, 2007. Historically, existing insurance coverage has provided 50% to 80% of the total defense and indemnity payments for Abex Claims. However, insurance recovery is currently at a lower percentage (approximately 30%) due to exhaustion of primary layers of coverage and litigation with certain excess insurers.

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 was appropriate to reflect the potential net impact of this issue.

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 of Federal-Mogul, its bankruptcy committees and the future claimants (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 would 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.

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

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within the Federal-Mogul bankruptcy. Accordingly, Cooper recorded a \$126.0 million after-tax discontinued operations charge, net of a \$70.9 income tax benefit, in the fourth quarter of 2003.

In December 2005, Cooper announced that the Company and other parties involved in the resolution of the Federal-Mogul bankruptcy proceeding had reached an agreement regarding Cooper's participation in Federal Mogul's proposed 524 (g) asbestos trust. By participating in this trust, Cooper would resolve its liability for asbestos claims arising from Cooper's former Abex Friction Products business. The proposed settlement agreement was subject to court approval, approval of 75 percent of the current Abex asbestos claimants and certain other approvals. The settlement would resolve more than 38,000 pending Abex Claims as of December 2005. Future claims would be resolved through the bankruptcy trust, and Cooper would be protected against future claims by an injunction to be issued by the district court upon plan confirmation.

Key terms and aspects of the proposed settlement agreement included Cooper agreeing to pay \$130 million in cash into the trust, with \$115 million payable upon Federal-Mogul's emergence from bankruptcy. The remainder would be due on January 15, 2007, or upon emergence from bankruptcy, if later. Cooper would receive a total of \$37.5 million during the funding period from other parties associated with the Federal-Mogul bankruptcy. Cooper would further provide the trust 1.4 million shares of the Company's stock upon Federal-Mogul's emergence from bankruptcy.

The proposed settlement agreement also provided for further payments by Cooper subject to the amount and timing of insurance proceeds. Cooper agreed to make 25 annual payments of up to \$20 million each, reduced by certain insurance proceeds received by the trust. In years that the insurance proceeds exceed \$17 million, Cooper would be required to contribute \$3 million with the excess insurance proceeds carried over to the next year. The trust would retain 10 percent of the insurance proceeds for indemnity claims paid by the trust until Cooper's obligation is satisfied and would retain 15 percent thereafter. The agreement also provided for Cooper to receive the insurance proceeds related to indemnity and defense costs paid prior to the date a stay of current claims is entered by the bankruptcy court. Cooper would also be required to forego certain claims and objections in the Federal-Mogul bankruptcy proceedings. In addition, the parties involved had agreed to petition the court for a stay on all current claims outstanding.

Although the payments related to the settlement could extend to 25 years and the collection of insurance proceeds could extend beyond 25 years, the liability and insurance would be undiscounted on Cooper's balance sheet as the amount of the actual annual payments is not reasonably predictable.

A critical term of the proposed settlement was the issuance of a preliminary injunction staying all pending Abex asbestos claims. At a hearing on January 20, 2006, other parties to the bankruptcy proceedings were unable to satisfy the court's requirements to grant the required preliminary injunction. As a result, the proposed settlement agreement required renegotiation of certain terms. The final determination of whether Cooper would participate in the Federal-Mogul 524(g) trust was unknown. However, Cooper management concluded that, at the date of the filing of its 2005 Form 10-K, the most likely outcome in the range of potential outcomes was a revised settlement approximating the December 2005 proposed settlement. Accordingly, Cooper recorded a \$227.2 million after-tax discontinued operations charge, net of a \$127.8 million income tax benefit, in the fourth quarter of 2005.

The fourth quarter 2005 charge to discontinued operations included payments to a 524(g) trust over 25 years that were undiscounted, and the insurance recoveries only included recoveries where insurance in place agreements, settlements or policy recoveries were probable. If the negotiations with the Representatives in early 2004 had resulted in an agreement, Cooper would have paid all the consideration when Federal-Mogul emerged from bankruptcy and the 524(g) trust was formed and would have relinquished all rights to insurance. The lack of discounting and the limited recognition of insurance recoveries in the fourth quarter 2005 charge to discontinued operations were a significant component of the increase in the accrual for discontinued operations. While it is not possible to quantify, the accrual for discontinued operations also includes a premium for resolving the inherent uncertainty associated with resolving Abex Claims through the tort system. If Cooper is unable to reach a settlement to participate in the Federal-Mogul 524(g) trust, the accrual for discontinued operations potentially may have to be adjusted to

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the estimated liability and related insurance recoveries through the tort system. There are numerous assumptions that are required to project the liability in the tort system and Cooper has not completed the analysis and determined the liability that would be recorded under this scenario.

Cooper, through Pneumo-Abex LLC, has access to Abex insurance policies with remaining limits on policies with solvent insurers in excess of \$750 million. Cooper included insurance recoveries of approximately \$215 million pre-tax in the fourth quarter 2005 charge to discontinued operations discussed above. Cooper believes that it is likely that additional insurance recoveries will be recorded in the future as new insurance in place agreements are consummated and settlements with insurance carriers are completed. However, extensive litigation with the insurance carriers may be required to receive those additional recoveries.

On July 7, 2006, Cooper announced a revised agreement had been reached regarding Cooper's participation in Federal-Mogul's 524(g) trust. The revised proposed settlement agreement remains subject to court approval and to certain other approvals.

Key terms and aspects of the revised proposed settlement agreement include Cooper agreeing to pay \$256 million in cash into the trust on the date Federal-Mogul emerges from bankruptcy, which includes elimination of the contribution of 1.4 million common shares to the trust by increasing the cash contribution. Removing Cooper common stock as a component of the revised settlement agreement eliminates additional charges and reversals of charges that may have occurred to account for any changes in the market value of Cooper stock. Cooper has or will receive \$37.5 million from other parties toward its cash obligation.

As in the December 2005 agreement, Cooper has agreed to make 25 annual payments of up to \$20 million each to the trust with such payments being reduced by insurance proceeds. The minimum annual payment of \$3 million in the December 2005 agreement has been eliminated. However, Cooper has agreed to make advances, beginning in 2015 through 2021, in the event the trust is unable to pay outstanding qualified claims at 100 percent of the value provided for in the trust agreement. In the event that advances are made by Cooper, they will accrue interest at 5 percent per annum, and will be repaid in years where excess funds are available in the trust or credited against the future year annual payments. The maximum advances are \$36.6 million.

Cooper will pay all defense costs through the date Federal-Mogul emerges from bankruptcy and will be reimbursed for indemnity payments to the extent such payments are eligible for payment from the trust. Cooper will retain the rights to receive the insurance proceeds related to indemnity and defense costs paid prior to the date Federal-Mogul emerges from bankruptcy. For claims paid by the trust, the trust will retain 10 percent of any reimbursed insurance proceeds for the first 25 years and thereafter will retain 15 percent.

As in the December 2005 proposed agreement, Cooper will forego certain claims and objections in the Federal-Mogul bankruptcy proceedings. However, under the revised proposed agreement, which is subject to court approval, in the event that Cooper's participation in the Federal-Mogul 524(g) trust is not approved for any reason, Cooper would receive a cash payment of \$138 million on the date Federal-Mogul emerges from bankruptcy and 20 percent of any insurance policy settlements related to the former Wagner business purchased by Federal-Mogul in 1998. If Cooper participates in the trust, it will receive 12 percent of any Wagner insurance settlements.

Accordingly, Cooper recorded a \$20.3 million after-tax discontinued operations charge, net of an \$11.4 million income tax benefit, in the second quarter of 2006.

The revised proposed settlement agreement was incorporated into Federal-Mogul's Fourth Amended Joint Plan of Reorganization filed on November 21, 2006.

On February 2, 2007, the U.S. Bankruptcy Court for the District of Delaware approved the adequacy of Federal-Mogul's Supplemental Disclosure Statement describing the Fourth Amended Joint Plan of Reorganization. The Court also approved the Voting Procedures and ordered that the voting period would

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expire on April 6, 2007. At a hearing on April 13, Federal-Mogul announced that the Abex settlement had received a favorable vote of approximately 94%, well in excess of the required vote. In addition, any objections to the Fourth Amended Plan were filed with the Court by April 24, 2007 and hearings on confirmation of the Plan were held the week of July 9th. The Court also held hearings on October 1 and 2, 2007 for final briefs and hearings. At the conclusion of these hearings, the Court neither approved or rejected the revised proposed settlement agreement. If the Plan is confirmed, Federal-Mogul could emerge from bankruptcy by year-end 2007.

From a cash flow perspective, Cooper management continues to believe that a settlement on the terms of the revised agreement would allow Cooper to continue to grow through acquisitions and return cash to shareholders through dividends and stock repurchases. The settlement agreement remains subject to bankruptcy court approval 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 \$521.0 million at September 30, 2007 and \$529.6 million at December 31, 2006.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in Cooper's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

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 during the three months ended September 30, 2007:

Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
			(1)	(1)
As of 6/30/07				9,648,500
7/01/07 7/31/07	280,000	\$ 56.59	280,000	9,368,500
8/01/07 8/31/07	3,170,713	\$ 49.79	3,170,713	6,197,787
9/01/07 9/30/07	536,100	\$ 50.36	536,100	5,661,687
Total	3,986,813	\$ 50.34	3,986,813	

(1) On February 14, 2007, Cooper announced that the Board of Directors approved a two-for-one stock split of Cooper common

stock. The record date for the stock split was February 28, 2007 and the distribution date was March 15, 2007. All share and per share information presented in this Form 10-Q has been retroactively restated to reflect the effect of the stock split.

- (2) On November 2, 2004, Cooper's Board of Directors authorized the repurchase of up to ten million shares of Cooper 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 2007,

Cooper's current estimate is that 4.0 million shares will be issued under equity compensation plans, which is reflected in the above table.

Item 3. Defaults Upon Senior Securities
Not applicable

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Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 6. Exhibits

12. Computation of Ratios of Earnings to Fixed Charges for the Calendar Years 2002 through 2006 and the Nine Months Ended September 30, 2007 and 2006.

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.

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: October 29, 2007

/s/ Terry A. Klebe
Terry A. Klebe
Senior Vice President and Chief Financial
Officer

Date: October 29, 2007

/s/ Jeffrey B. Levos
Jeffrey B. Levos
Vice President, Finance and Chief
Accounting Officer
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Exhibit Index

Exhibit No.

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