

COOPER INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The ESOP purchased Cooper Common stock which was financed through external borrowings and loans from Cooper. The external ESOP debt matured in July 1999 and was fully repaid. The purchases funded by loans between the ESOP and Cooper were treated as eliminated intercompany loans for financial statement purposes. These intercompany loans were paid in full during 2001. Cooper made annual contributions to the ESOP to fund the payment of principal and interest. As the debt was repaid, unallocated shares were allocated to CO-SAV participants to satisfy Cooper's matching obligation or to replace dividends on allocated shares with Cooper Common shares in years prior to 2000.

Dividends paid on unallocated ESOP shares of \$0.1 million, \$0.5 million and \$1.0 million during 2001, 2000 and 1999, respectively, were used to reduce the amount of cash required to fund principal and interest payments on ESOP debt. Dividends paid on allocated ESOP shares of \$3.8 million during 1999 were used to pay additional principal and interest payments in order to allocate shares equivalent to the dividend amount to participants in the CO-SAV plan. Cooper contributed an additional \$8.4 million, \$9.6 million and \$13.5 million in cash to the ESOP during 2001, 2000 and 1999, respectively, to fund principal and interest payments on ESOP debt.

The number of allocated, committed to be allocated, and unallocated ESOP shares at December 31, 2001 and 2000 is summarized below:

	Shares Purchased Prior to 1994		Shares Purchased In 1994	
	2001	2000	2001	2000
Allocated to CO-SAV participant accounts	2,950,973	2,783,473	928,837	928,837
Committed to be allocated	-	1,111	-	-
Unallocated	-	166,389	-	-

Shares purchased by the ESOP prior to 1994 are accounted for in accordance with Statement of Position 76-3, *Accounting Practices for Certain Employee Stock Ownership Plans* and Emerging Issues Task Force Issue 89-8, *Expense Recognition for Employee Stock Ownership Plans*. Compensation expense is equal to Cooper's CO-SAV matching obligation, adjusted for the difference between the fair market value and cost of the shares committed to be allocated. Compensation expense is reduced by the amount of dividends paid on unallocated ESOP shares available for future matching. All shares issued to the ESOP are considered outstanding for purposes of computing earnings per share.

Shares purchased by the ESOP in 1994 are accounted for in accordance with Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans* ("SOP 93-6"). SOP 93-6 was effective for fiscal years beginning after December 15, 1993. Compensation expense is recognized at the fair value of the shares committed to be allocated which is equal to the amount of Cooper's CO-SAV matching obligation. Unearned employee stock ownership plan compensation is credited as shares are committed to be allocated based on the cost of the shares to the ESOP. The difference between the fair market value and cost of the shares committed to be allocated is recorded as an adjustment to capital in excess of par value. Dividends paid on unallocated shares are recorded as a reduction of ESOP debt, accrued interest or accrued employee benefits. Unallocated shares are not treated as outstanding in the earnings per share computation.

Compensation expense for the CO-SAV plan and the ESOP was \$23.0 million, \$20.2 million and \$18.6 million in 2001, 2000 and 1999, respectively.