

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

NOTE 12: INCOME TAXES

	Year Ended December 31,		
	2001	2000	1999
	(in millions, except for percentages)		
Components of income from continuing operations			
before income taxes			
U S operations	\$ 211.9	\$ 433.7	\$ 390.7
Foreign operations	104.5	116.2	127.9
Income from continuing operations before income taxes	<u>\$ 316.4</u>	<u>\$ 549.9</u>	<u>\$ 518.6</u>
Components of income tax expense			
Current			
U S Federal	\$ 60.8	\$ 64.0	\$ 84.3
U S state and local	6.2	1.3	6.2
Foreign	23.2	28.4	36.2
	<u>90.2</u>	<u>93.7</u>	<u>126.7</u>
Deferred			
U S Federal	(43.9)	72.8	48.0
U S state and local	2.5	19.4	10.4
Foreign	6.3	6.6	1.6
	<u>(35.1)</u>	<u>98.8</u>	<u>60.0</u>
Income tax expense	<u>\$ 55.1</u>	<u>\$ 192.5</u>	<u>\$ 186.7</u>
Total income taxes paid	<u>\$ 100.8</u>	<u>\$ 132.3</u>	<u>\$ 132.5</u>
Effective tax rate reconciliation			
U S Federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes	1.4	2.2	1.9
Foreign statutory rate differential	(3.5)	(1.2)	(1.5)
Nondeductible goodwill	4.3	2.4	2.3
Foreign Sales Corporation	(1.4)	(0.8)	(0.7)
Tax credits	(0.2)	(1.4)	(0.3)
Reduction in tax reserves	(15.8)	-	-
Other	(2.4)	(1.2)	(0.7)
Effective tax rate attributable to continuing operations	<u>17.4%</u>	<u>35.0%</u>	<u>36.0%</u>

A \$50 million U S Federal tax benefit was recorded in 2001 as a result of recent favorable Appellate level third party court decisions related to certain income tax return issues. These court decisions have validated Cooper's tax return treatment of similar transactions executed in 1997 and prior years that are being contested by the Internal Revenue Service. In light of the Fifth Circuit Court decision, issued in December 2001, Cooper concluded that the tax reserve related to these transactions is no longer required.