Table of Contents

ITEM 3. 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 future additional 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 December 31, 2004, a total of 133,161 Abex Claims were filed, of which 86,461 claims have been resolved leaving 46,700 Abex Claims pending at December 31, 2004, that are the responsibility of Federal-Mogul During the year ended December 31, 2004, 18,185 claims were filed and 34,180 claims were resolved Since August 28, 1998, the average indemnity payment for resolved Abex Claims was $1,911 before insurance A total of $66 million was spent on defense costs for the period August 28, 1998 through December 31, 2004 Historically, existing insurance coverage has provided 50% to 80% of the total defense and indemnity payments for Abex Claims

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

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