Table of Contents

Cooper's operating working capital decreased $72 million to $975 million in 2002 from $1,047 million in 2001 This decrease was primarily related to a $90 million reduction in inventories and a $70 million reduction in accounts receivable, partially offset by lower accounts payable Contributing to the reduction in inventories was a $6 million increase in the allowance for excess and obsolete inventories reflecting Cooper's assessment of ultimate disposition in consideration of market conditions Operating working capital turnover decreased to 3 9 turns in 2002 from 4 0 turns in 2001 The decrease from 2001 reflects the impact of lower shipments

Cash Flows

Net cash provided by operating activities in 2004 totaled $474 million These funds, along with $78 million of cash received from employee stock plan activity and a $90 million net increase in debt, were used to fund capital expenditures of $103 million, dividends of $131 million, share repurchases of $203 million and acquisitions of $49 million, resulting in an increase in cash and cash equivalents of $189 million

Net cash provided by operating activities in 2003 totaled $445 million These funds, along with $63 million of cash received from employee stock plan activity, were used to fund capital expenditures of $80 million, dividends of $130 million and net debt repayments of $170 million, resulting in an increase in cash and cash equivalents of $162 million

Net cash provided by operating activities in 2002 totaled $480 million These funds, along with a net $95 million of additional debt, partially offset by capital expenditures of $74 million, dividends of $130 million and share purchases of $94 million, resulted in an increase in cash and cash equivalents of $291 million

In connection with accounting for acquisitions, 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 At December 31, 2004, Cooper had accruals totaling $11 0 million related to these activities Cash flows from operating activities for each of the three years in the period ended December 31, 2004, is reduced by the amounts expended on the various accruals established in connection with each acquisition Cooper spent $7 1 million, $11 0 million and $7 2 million on these integration activities in 2004, 2003 and 2002, respectively See Note 7 of the Notes to the Consolidated Financial Statements for further information

Cooper currently anticipates a continuance of its long-term ability to annually generate in excess of $200 million in cash flow available for acquisitions, debt repayment and common stock repurchases

As discussed in Note 16 of Notes to the Consolidated Financial Statements, Cooper is continuing discussions with the representatives of Federal-Mogul, its bankruptcy committees and the future claimants regarding settlement of Cooper's contingent liabilities related to the Automotive Products sale to Federal-Mogul It is likely that if a settlement is reached, the settlement would involve a cash contribution Cooper anticipates that any settlement cash contribution amounts would be funded from operating cash flows

Debt

At December 31, 2004 and 2003, Cooper had short-term debt of $97 6 million and $6 2 million, respectively None of this short-term debt consisted of commercial paper

Cooper's practice is to back up its short-term debt with a combination of cash and committed credit facilities At December 31, 2004 and 2003, Cooper had cash and cash equivalents of $652 8 million and $463 7 million, respectively At December 31, 2004, 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