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the relationship of the U S dollar to the currencies of countries in which Cooper does business The estimates also assume, without limitation, no significant change in competitive conditions and such other risk factors as are discussed from time to time in Cooper's periodic filings with the Securities and Exchange Commission

Pricing and Volume

In each of Cooper's segments, the nature of many of the products sold is such that an accurate determination of the changes in unit volume of sales is neither practical nor, in some cases, meaningful Each segment produces a family of products, within which there exist considerable variations in size, configuration and other characteristics

It is Cooper's judgment that unit volume in the Electrical Products segment increased in 2004 Unit volume also increased in the Tools & Hardware segment in 2004, but was largely offset monetarily by the decline in shipments of large assembly systems

During the three-year period ending December 31, 2004, Cooper has experienced an overall decline in customer pricing However, price realization was achieved in 2004, primarily in response to increased material, energy and components costs Cooper has aggressively acted to control and reduce costs during the three-year period through strategic sourcing, manufacturing improvement and rationalization efforts in order to improve profitability in the segments

Effect of Inflation

Over the three-year period, inflation has had a relatively minor impact on Cooper's results of operations However, during 2004, there were significant increases in certain key commodities and components, which were not fully offset through price increases in businesses with a high material content Cooper's on-going initiatives to improve productivity and rationalize its operational base has mitigated increases in employee compensation and benefits, as well as general inflation on operating costs

Liquidity and Capital Resources

Operating Working Capital

For purposes of this discussion, operating working capital is defined as receivables and inventories less accounts payable

Cooper's operating working capital increased $31 million to $993 million in 2004 compared to $962 million in 2003 The increase in operating working capital for 2004 was due to a $82 million increase in accounts receivable partially offset by a $29 million decrease in inventories and a $22 million increase in accounts payable Excluding acquisitions and currency translation, operating working capital was essentially flat on a 10% revenue increase Operating working capital turnover (defined as annual revenues divided by average operating working capital) for 2004 was 4 6 turns, increasing from 4 2 turns in 2003, due to continued focus on improving the use of working capital, particularly lowering inventory levels, while increasing sales A portion of the reduction in inventories was due to a $11 million increase in the allowance for excess and obsolete inventories

Cooper's operating working capital decreased $13 million to $962 million in 2003 compared to $975 million in 2002 The decrease in operating working capital for 2003 was due to a $29 million reduction in inventories and a $17 million increase in accounts payable, partially offset by a $32 million increase in accounts receivable Operating working capital turnover for 2003 was 4 2 turns, increasing from 3 9 turns in 2002, due to continued focus on improving the efficient use of working capital, particularly lowering inventory levels A portion of the reduction in inventories was due to a $7 million increase in the allowance for excess and obsolete inventories