

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, excluding the year-to-year effects of acquisitions and divestitures, unit volume decreased in the Electrical Products segment and decreased in the Tools & Hardware segment in 2001.

During the three-year period ending in 2001, Cooper was unable to increase prices to fully offset cost increases in selected product offerings in both segments. Cooper has been able to control costs through strategic sourcing efforts, manufacturing improvements and other actions during this period so that the inability to increase prices has not significantly affected profitability in the segments.

Effect of Inflation

During each year, inflation has had a relatively minor effect on Cooper's results of operations. This is true primarily for three reasons. First, in recent years, the rate of inflation in Cooper's primary markets has been fairly low. Second, Cooper makes extensive use of the LIFO method of accounting for inventories. The LIFO method results in current inventory costs being matched against current sales dollars, such that inflation affects earnings on a current basis. Finally, many of the assets and liabilities included in Cooper's Consolidated Balance Sheets are recorded in connection with business combinations that are accounted for as purchases. At the time of such acquisitions, the assets and liabilities are adjusted to fair market value and, therefore, the cumulative long-term effect of inflation is reduced.

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 decreased \$19 million from \$1,065.6 million in 2000 to \$1,046.6 million in 2001. Operating working capital turnover declined from 4.5 turns in 2000 to 4.0 turns in 2001. Excluding the impact of recent acquisitions, operating working capital turnover in 2001 was 4.2 turns. The decrease from 2000 primarily reflects the lower than expected revenues experienced in 2001.

In 2000, operating working capital increased \$149 million compared to an increase of \$135 million in 1999. The increase in operating working capital for 2000 was due to acquisitions made during the year. Operating working capital turnover for 2000 was 4.5 turns, declining from 4.6 turns in 1999, also primarily due to acquisitions.

In 1999, operating working capital increased \$135 million. A majority of the increase resulted from acquisitions. Operating working capital turnover for 1999 of 4.6 turns declined from 5.0 turns in 1998. Higher operating working capital levels to support consolidation and cost-reduction programs in several businesses and the impact of a new business system implementation at one of the electrical product businesses offset the benefits from ongoing improvement programs.