

COOPER TIRE & RUBBER CO
Form 10-Q
February 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2013

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

Commission File No. 1-4329

COOPER TIRE & RUBBER COMPANY

(Exact name of registrant as specified in its charter)

Edgar Filing: COOPER TIRE & RUBBER CO - Form 10-Q

DELAWARE
(State or other jurisdiction of
incorporation or organization)

34-4297750
(I.R.S. employer
identification no.)

701 Lima Avenue, Findlay, Ohio 45840

(Address of principal executive offices)

(Zip code)

(419) 423-1321

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock of registrant outstanding

at January 31, 2014: 65,292,278

Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands except per-share amounts)

	December 31, 2012 (Note 1)	September 30, 2013 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 351,817	\$ 309,805
Notes receivable	47,646	68,996
Accounts receivable, less allowances of \$13,267 at 2012 and \$18,869 at 2013	415,460	440,997
Inventories at lower of cost or market:		
Finished goods	380,839	418,362
Work in process	40,953	37,031
Raw materials and supplies	140,076	131,997
	561,868	587,390
Other current assets	72,904	86,861
Total current assets	1,449,695	1,494,049
Property, plant and equipment:		
Land and land improvements	48,677	51,428
Buildings	315,307	324,473
Machinery and equipment	1,740,749	1,814,956
Molds, cores and rings	224,455	239,838
	2,329,188	2,430,695
Less accumulated depreciation and amortization	1,399,933	1,471,728
Net property, plant and equipment	929,255	958,967
Goodwill	18,851	18,851
Intangibles, net of accumulated amortization of \$48,340 at 2012 and \$60,339 at 2013	150,017	161,070
Restricted cash	7,741	2,653
Deferred income taxes	228,849	200,284
Other assets	16,752	17,094
Total assets	\$ 2,801,160	\$ 2,852,968
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	\$ 32,836	\$ 26,526
Accounts payable	379,867	304,430
Accrued liabilities	221,822	273,209
Income taxes	18,297	13,488
Current portion of long-term debt	2,319	17,917
Total current liabilities	655,141	635,570

Edgar Filing: COOPER TIRE & RUBBER CO - Form 10-Q

Long-term debt	336,142	326,414
Postretirement benefits other than pensions	291,546	294,798
Pension benefits	432,922	401,351
Other long-term liabilities	168,967	159,886
Deferred income tax liabilities	8,026	7,477
Equity:		
Preferred stock, \$1 par value; 5,000,000 shares authorized; none issued		
Common stock, \$1 par value; 300,000,000 shares authorized; 87,850,292 shares issued	87,850	87,850
Capital in excess of par value	919	4,129
Retained earnings	1,657,936	1,728,693
Cumulative other comprehensive loss	(551,526)	(519,293)
	1,195,179	1,301,379
Less: common shares in treasury at cost (24,691,431 at 2012 and 24,480,261 at 2013)	(437,555)	(433,327)
Total parent stockholders' equity	757,624	868,052
Noncontrolling shareholders' interests in consolidated subsidiaries	150,792	159,420
Total equity	908,416	1,027,472
Total liabilities and equity	\$ 2,801,160	\$ 2,852,968

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2013

(UNAUDITED)

(Dollar amounts in thousands except per-share amounts)

	2012	2013
Net sales	\$ 1,095,626	\$ 832,419
Cost of products sold	897,468	735,015
Gross profit	198,158	97,404
Selling, general and administrative	68,555	69,496
Operating profit	129,603	27,908
Interest expense	(7,115)	(6,684)
Interest income	542	270
Other income (expense)	(315)	(348)
Income before income taxes	122,715	21,146
Income tax expense	40,004	17,845
Net income	82,711	3,301
Net income attributable to noncontrolling shareholders' interests	8,598	3,469
Net income (loss) attributable to Cooper Tire & Rubber Company	\$ 74,113	\$ (168)
Basic earnings (loss) per share:		
Net income (loss) attributable to Cooper Tire & Rubber Company common stockholders	\$ 1.18	\$ (0.00)
Diluted earnings (loss) per share:		
Net income (loss) attributable to Cooper Tire & Rubber Company common stockholders	\$ 1.17	\$ (0.00)
Dividends per share	\$ 0.105	\$ 0.105

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2013

(UNAUDITED)

(Dollar amounts in thousands)

	Three Months Ended September 30,	
	2012	2013
Net income	\$ 82,711	\$ 3,301
Other comprehensive income		
Cumulative currency translation adjustments		
Foreign currency translation adjustments	10,346	12,284
Financial instruments		
Change in the fair value of derivatives and marketable securities	(8,023)	(3,205)
Income tax benefit on derivative instruments	2,864	1,337
Financial instruments, net of tax	(5,159)	(1,868)
Postretirement benefit plans		
Amortization of actuarial loss	11,617	13,191
Amortization of prior service credit	(172)	(142)
Income tax expense on postretirement benefit plans	(4,160)	(4,744)
Foreign currency translation effect	(4,039)	(5,607)
Postretirement benefit plans, net of tax	3,246	2,698
Other comprehensive income	8,433	13,114
Comprehensive income	91,144	16,415
Less comprehensive income attributable to noncontrolling shareholders' interests	9,532	3,796
Comprehensive income attributable to Cooper Tire & Rubber Company	\$ 81,612	\$ 12,619

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2013

(UNAUDITED)

(Dollar amounts in thousands except per-share amounts)

	2012	2013
Net sales	\$ 3,138,366	\$ 2,578,226
Cost of products sold	2,675,875	2,172,744
Gross profit	462,491	405,482
Selling, general and administrative	189,764	211,744
Operating profit	272,727	193,738
Interest expense	(23,973)	(21,016)
Interest income	1,914	707
Other income (expense)	333	(587)
Income before income taxes	251,001	172,842
Income tax expense	81,650	65,104
Net income	169,351	107,738
Net income attributable to noncontrolling shareholders' interests	21,924	16,340
Net income attributable to Cooper Tire & Rubber Company	\$ 147,427	\$ 91,398
Basic earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 2.36	\$ 1.44
Diluted earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 2.34	\$ 1.42
Dividends per share	\$ 0.315	\$ 0.315

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2013

(UNAUDITED)

(Dollar amounts in thousands)

	Nine Months Ended September 30,	
	2012	2013
Net income	\$ 169,351	\$ 107,738
Other comprehensive income		
Cumulative currency translation adjustments		
Foreign currency translation adjustments	9,693	9,349
Financial instruments		
Change in the fair value of derivatives and marketable securities	(8,129)	1,588
Income tax benefit (expense) on derivative instruments	2,958	(605)
Financial instruments, net of tax	(5,171)	983
Postretirement benefit plans		
Amortization of actuarial loss	35,020	39,558
Amortization of prior service credit	(700)	(425)
Actuarial gain from plan amendment	7,707	
Pension curtailment gain	(7,460)	
Income tax expense on postretirement benefit plans	(12,538)	(14,236)
Foreign currency translation effect	(3,785)	(918)
Postretirement benefit plans, net of tax	18,244	23,979
Other comprehensive income	22,766	34,311
Comprehensive income	192,117	142,049
Less comprehensive income attributable to noncontrolling shareholders' interests	23,485	18,418
Comprehensive income attributable to Cooper Tire & Rubber Company	\$ 168,632	\$ 123,631

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2013

(UNAUDITED)

(Dollar amounts in thousands)

	2012	2013
Operating activities:		
Net income	\$ 169,351	\$ 107,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96,194	99,222
Deferred income taxes	5,287	5,035
Stock based compensation	5,912	6,470
Change in LIFO inventory reserve	(35,389)	(37,033)
Amortization of unrecognized postretirement benefits	34,320	39,133
Changes in operating assets and liabilities:		
Accounts and notes receivable	(53,130)	(40,049)
Inventories	(81,817)	15,210
Other current assets	(7,930)	(15,878)
Accounts payable	79,692	(77,932)
Accrued liabilities	67,326	53,053
Other items	12,258	(31,857)
Net cash provided by operating activities	292,074	123,112
Investing activities:		
Additions to property, plant and equipment	(123,477)	(135,412)
Acquisition of assets in Serbia	(18,534)	
Proceeds from the sale of assets	754	532
Net cash used in investing activities	(141,257)	(134,880)
Financing activities:		
Net payments on short-term debt	(83,501)	(6,864)
Additions to long-term debt	10,042	24,527
Repayments on long-term debt	(21,771)	(18,657)
Acquisition of noncontrolling shareholder interest	(71)	
Payment of dividends to noncontrolling shareholders	(3,495)	(9,790)
Payment of dividends	(19,650)	(19,950)
Issuance of common shares and excess tax benefits on options	5,177	1,869
Net cash used in financing activities	(113,269)	(28,865)
Effects of exchange rate changes on cash	254	(1,379)
Changes in cash and cash equivalents	37,802	(42,012)
Cash and cash equivalents at beginning of year	233,710	351,817
Cash and cash equivalents at end of period	\$ 271,512	\$ 309,805

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands except per-share amounts)

1. Basis of Presentation and Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. There is a year-round demand for the Company's passenger and truck replacement tires, but sales of light vehicle replacement tires are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of June through November. Operating results for the nine-month period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013.

The Company consolidates into its financial statements the accounts of the Company, all wholly-owned subsidiaries, and any partially-owned subsidiary that the Company has the ability to control. Control generally equates to ownership percentage, whereby investments that are more than 50% owned are consolidated, investments in affiliates of 50% or less but greater than 20% are accounted for using the equity method, and investments in affiliates of 20% or less are accounted for using the cost method. The Company does not consolidate any entity for which it has a variable interest based solely on power to direct the activities and significant participation in the entity's expected results that would not otherwise be consolidated based on control through voting interests. Further, the Company's joint ventures are businesses established and maintained in connection with the Company's operating strategy. All intercompany transactions and balances have been eliminated.

Reclassification certain amounts for prior years have been reclassified to conform to the current year presentation. On the 2012 Consolidated Balance Sheet, fixed asset balances at the Company's Mexican manufacturing operations have been reclassified to more appropriately reflect the underlying nature of the assets.

Accounting Pronouncements Recently Adopted

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-11, Disclosures about Offsetting Assets and Liabilities, which requires an entity to disclose information about offsetting and related arrangements. The amendments in this update are effective for annual and interim periods beginning on or after January 1, 2013, with retrospective application. In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The Company has adopted these ASUs and has included the expanded disclosures in Footnote 3 Fair Value of Financial Instruments.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to provide information about amounts reclassified out of accumulated other comprehensive income by component. The Company has included the disclosures required by this ASU in Footnote 10 Changes in Cumulative Other Comprehensive Loss by Component.

2. Merger Agreement

On June 12, 2013, the Company and Apollo Tyres Ltd. (Apollo) announced the execution of a definitive merger agreement (the Agreement and Plan of Merger) under which a wholly-owned subsidiary of Apollo was to acquire the Company in an all-cash transaction valued at approximately \$2.5 billion. On December 30, 2013, the Company terminated the Agreement and Plan of Merger. See Footnote 15 Subsequent Events.

The Company is a party to a trust agreement which is intended to provide funding for benefits payable and other potential payments to directors, executive officers and certain other employees under various plans and agreements of the Company. The execution of the Agreement and Plan of Merger constituted a potential change in control under such plans and agreements and as a result, the Company was required to fund the estimated value of the payments to be made to the beneficiaries under the trust agreement. The Company has deposited 1,906,183 of common shares with the trustee in connection with this funding. These shares are treated as treasury shares on these financial statements and in accordance with Accounting Standards Codification 260, Earnings Per Share , are not included in the earnings per share calculations.

During the third quarter of 2013, the Company incurred approximately \$4,505 of expenses associated with the Agreement and Plan of Merger. The Company has incurred approximately \$8,580 of these expenses through the nine-month period of 2013. These expenses are recorded in Selling, general & administrative expenses on the Condensed Consolidated Statements of Operations.

3. Earnings Per Share

Net income per share is computed on the basis of the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the dilutive effect of stock options and other stock units. The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended September 30		Nine months ended September 30	
	2012	2013	2012	2013
Numerator				
Numerator for basic and diluted earnings per share				
Net income (loss) attributable to common stockholders	\$ 74,113	\$ (168)	\$ 147,427	\$ 91,398
Denominator				
Denominator for basic earnings per share weighted average shares outstanding				
	62,561	63,365	62,405	63,311
Effect of dilutive securities stock options and other stock units	713		637	967
Denominator for diluted earnings per share adjusted weighted average shares outstanding	63,274	63,365	63,042	64,278
Basic earnings (loss) per share:				
Net income (loss) attributable to Cooper Tire & Rubber Company common stockholders	\$ 1.18	\$ (0.00)	\$ 2.36	\$ 1.44
Diluted earnings (loss) per share:				
Net income (loss) attributable to Cooper Tire & Rubber Company common stockholders	\$ 1.17	\$ (0.00)	\$ 2.34	\$ 1.42

Options to purchase shares of the Company's common stock not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares were 429,046 and none at September 30, 2012 and 2013, respectively.

4. Fair Value of Financial Instruments

Derivative financial instruments are utilized by the Company to reduce foreign currency exchange risks. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes. The derivative financial instruments include fair value and cash flow hedges of foreign currency exposures. The change in values of the fair value foreign currency hedges offset exchange rate fluctuations on the foreign currency-denominated intercompany loans and obligations. The Company presently hedges exposures in the Euro, Canadian dollar, British pound sterling, Swiss franc, Swedish krona, Norwegian krone, Mexican peso and Chinese yuan generally for transactions expected to occur within the next 12 months. The notional amount of these foreign currency derivative instruments at December 31, 2012 and September 30, 2013 was \$186,217 and \$147,759, respectively. The counterparties to each of these agreements are major commercial banks.

The Company uses foreign currency forward contracts as hedges of the fair value of certain non-U.S. dollar denominated asset and liability positions, primarily accounts receivable and debt. Gains and losses resulting from the impact of currency exchange rate movements on these forward contracts are recognized in the accompanying Consolidated Statements of Operations in the period in which the exchange rates change and offset the foreign currency gains and losses on the underlying exposure being hedged.

Foreign currency forward contracts are also used to hedge variable cash flows associated with forecasted sales and purchases denominated in currencies that are not the functional currency of certain entities. The forward contracts have maturities of less than twelve months pursuant to the Company's policies and hedging practices. These forward contracts meet the criteria for and have been designated as cash flow hedges. Accordingly, the effective portion of the change in fair value of such forward contracts (approximately (\$1,461) and \$127 as of December 31, 2012 and September 30, 2013, respectively) are recorded as a separate component of stockholders' equity in the accompanying Consolidated Balance Sheets and reclassified into earnings as the hedged transactions occur.

The Company assesses hedge ineffectiveness quarterly using the hypothetical derivative methodology. In doing so, the Company monitors the actual and forecasted foreign currency sales and purchases versus the amounts hedged to identify any hedge ineffectiveness. Any hedge ineffectiveness is recorded as an adjustment in the accompanying Condensed Consolidated Statements of Operations in the period in which the ineffectiveness occurs. The Company also performs regression analysis comparing the change in value of the hedging contracts versus the underlying foreign currency sales and purchases, which confirms a high correlation and hedge effectiveness.

The derivative instruments are subject to master netting arrangements with the counterparties to the contracts. The following table presents the location and amounts of derivative instrument fair values in the Condensed Consolidated Balance Sheets:

Assets/(Liabilities)	December 31, 2012	September 30, 2013
Designated as hedging instruments:		
Gross amounts recognized	\$ (2,610)	\$ 1,411
Gross amounts offset	1,100	(1,251)
Net amounts	(1,510)	\$ 160
Not designated as hedging instruments:		
Gross amounts recognized	245	\$ (114)
Gross amounts offset		
Net amounts	245	\$ (114)
Net amounts presented	Accrued liabilities	Other current assets
	\$ (1,265)	\$ 46

Edgar Filing: COOPER TIRE & RUBBER CO - Form 10-Q

The following table presents the location and amount of gains and losses on derivative instruments in the Condensed Consolidated Statements of Operations:

Derivatives Designated as	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion)	Amount of Gain (Loss) Reclassified from Cumulative Other Comprehensive Loss into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)
Cash Flow Hedges			
Three Months Ended September 30, 2012	\$ (4,078)	\$ 3,946	\$ 364
Three Months Ended September 30, 2013	\$ (2,316)	\$ 889	\$ 126
Nine Months Ended September 30, 2012	\$ (2,671)	\$ 5,458	\$ 350
Nine Months Ended September 30, 2013	\$ 2,926	\$ 1,338	\$ (84)

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized In Income on Derivatives			
		Three Months Ended September 30, 2012	2013	Nine Months Ended September 30, 2012	2013
Foreign exchange contracts	Other income	\$ 115	\$ 274	\$ 145	\$ (359)

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into the three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within the different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Condensed Consolidated Balance Sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1. Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access.

Level 2. Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets;
- b. Quoted prices for identical or similar assets or liabilities in non-active markets;
- c. Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- d. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Edgar Filing: COOPER TIRE & RUBBER CO - Form 10-Q

Level 3. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The valuation of foreign exchange forward contracts was determined using widely accepted valuation techniques. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs, including forward points. The Company incorporated credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Although the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as current credit ratings, to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2012 and September, 2013, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety were classified in Level 2 of the fair value hierarchy.

The valuation of stock-based liabilities was determined using the Company's stock price, and as a result, these liabilities are classified in Level 1 of the fair value hierarchy.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and September 30, 2013:

	December 31, 2012			
	Total Derivative Assets (Liabilities)	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Foreign Exchange Contracts	\$ (1,265)	\$	\$ (1,265)	\$
Stock-based Liabilities	\$ (11,934)	\$ (11,934)	\$	\$

	September 30, 2013			
	Total Derivative Assets (Liabilities)	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Foreign Exchange Contracts	\$ 46	\$	\$ 46	\$
Stock-based Liabilities	\$ (15,835)	\$ (15,835)	\$	\$

Edgar Filing: COOPER TIRE & RUBBER CO - Form 10-Q

The following tables present the carrying amounts and fair values for the Company's financial instruments carried at cost on the Condensed Consolidated Balance Sheets. The fair value of the Company's debt is based upon the market price of the Company's publicly-traded debt. The carrying amounts and fair values of the Company's financial instruments are as follows:

	December 31, 2012			
	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Instruments Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Cash and cash equivalents	\$ 351,817	\$ 351,817	\$	\$
Notes receivable	47,646	47,646		
Restricted cash	7,741	7,741		
Notes payable	(32,836)	(32,836)		
Current portion of long-term debt	(2,319)	(2,319)		
Long-term debt	(336,142)	(360,142)		

	September 30, 2013			
	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Instruments Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Cash and cash equivalents	\$ 309,805	\$ 309,805	\$	\$
Notes receivable	68,996	68,996		
Restricted cash	2,653	2,653		
Notes payable	(26,526)	(26,526)		
Current portion of long-term debt	(17,917)	(17,917)		
Long-term debt	(326,414)	(326,914)		

5. Business Segments

The following table details information on the Company's operating segments.

	Three months ended September 30		Nine months ended September 30	
	2012	2013	2012	2013
Revenues:				
North American Tire				
External customers	\$ 795,976	\$ 618,840	\$ 2,212,657	\$ 1,812,791
Intercompany	20,281	14,205	71,906	45,713
	816,257	633,045	2,284,563	1,858,504
International Tire				
External customers	299,650	213,579	925,709	765,435
Intercompany	111,606	50,871	308,644	193,316
	411,256	264,450	1,234,353	958,751
Eliminations	(131,887)	(65,076)	(380,550)	(239,029)
Net sales	\$ 1,095,626	\$ 832,419	\$ 3,138,366	\$ 2,578,226
Segment profit (loss):				
North American Tire				
	\$ 104,830	\$ 38,762	\$ 192,717	\$ 169,381
International Tire				
	35,506	3,083	111,381	62,322
Eliminations				
	(3,163)	1,736	(7,009)	2,900
Unallocated corporate charges				
	(7,570)	(15,673)	(24,362)	(40,865)
Operating profit	129,603	27,908	272,727	193,738
Interest expense	(7,115)	(6,684)	(23,973)	(21,016)
Interest income	542	270	1,914	707
Other income (expense)	(315)	(348)	333	(587)
Income before income taxes	\$ 122,715	\$ 21,146	\$ 251,001	\$ 172,842

6. Inventories

Inventory costs are determined using the last-in, first-out (LIFO) method for substantially all U.S. inventories. The current cost of this inventory under the first-in, first-out (FIFO) method was \$481,967 and \$493,822 at December 31, 2012 and September 30, 2013, respectively. These FIFO values have been reduced by approximately \$172,847 and \$135,814 at December 31, 2012 and September 30, 2013, respectively, to arrive at the LIFO value reported on the Condensed Consolidated Balance Sheets. The remaining inventories have been valued under the FIFO or average cost method. All inventories are stated at the lower of cost or market.

7. Stock-Based Compensation

The Company's incentive compensation plans allow the Company to grant awards to key employees in the form of stock options, stock awards, restricted stock units (RSUs), stock appreciation rights, performance stock units (PSUs), dividend equivalents and other awards. Compensation related to these awards is determined based on the fair value on the date of grant and is amortized to expense over the vesting period. For restricted stock units and performance stock units, the Company recognizes compensation expense based on the earlier of the vesting date or the date when the employee becomes eligible to retire. If awards can be settled in cash, these awards are recorded as liabilities and marked to market.

Edgar Filing: COOPER TIRE & RUBBER CO - Form 10-Q

The following table discloses the amount of stock based compensation expense for the three- and nine-month periods ended September 30, 2012 and 2013:

	Three months ended September 30		Nine months ended September 30	
	2012	2013	2012	2013
Stock options	\$ 863	\$ 989	\$ 2,506	\$ 2,962
Stock awards	67		67	
Restricted stock units	286	280	890	839
Performance stock units	1,025	740	2,449	2,669
Total stock based compensation	\$ 2,241	\$ 2,009	\$ 5,912	\$ 6,470

Stock Options

In February 2012, executives participating in the 2012 - 2014 Long-Term Incentive Plan were granted 589,934 stock options which will vest one third each year through February 2015. In February 2013, executives participating in the 2013 - 2015 Long-Term Incentive Plan were granted 330,639 stock options which will vest one third each year through February 2016. The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2012	2013
Risk-free interest rate	1.2%	1.2%
Dividend yield	2.7%	1.7%
Expected volatility of the Company's common stock	0.644	0.646
Expected life in years	6.0	6.0

The weighted average fair value of options granted in 2012 and 2013 was \$7.33 and \$12.97, respectively.

The following table provides details of the stock option activity for the nine months ended September 30, 2013:

	Number of Shares
Outstanding at January 1, 2013	1,486,351
Granted	330,639
Exercised	(93,345)
Expired	
Cancelled	(9,787)
Outstanding at September 30, 2013	1,713,858
<i>Exercisable</i>	900,116

Restricted Stock Units (RSUs)

The following table provides details of the nonvested RSU activity for the nine months ended September 30, 2013:

	Number of Restricted Units
Nonvested at January 1, 2013	110,871
Granted	1,000
Vested	(25,415)
Accrued dividend equivalents	1,052
 Nonvested at September 30, 2013	 87,508

Performance Stock Units (PSUs)

Executives participating in the Company's Long-Term Incentive Plan for the plan year 2011-2013, earn PSUs and cash. Any units and cash earned during 2012 and 2013 will vest at December 31, 2013. No units or cash were earned in 2011.

Executives participating in the Company's Long-Term Incentive Plan for the plan year 2012-2014, earn PSUs and cash. Any units and cash earned during 2012 and 2013 will vest at December 31, 2014.

Executives participating in the Company's Long-Term Incentive Plan for the plan year 2013-2015, earn PSUs and cash. Any units and cash earned during 2013 will vest at December 31, 2015.

The following table provides details of the nonvested PSUs under the Company's Long-Term Incentive Plans:

Performance stock units outstanding at January 1, 2013	216,623
Adjustments to outstanding units	2,077
Cancelled	(907)
Accrued dividend equivalents	2,439
 Performance stock units outstanding at September 30, 2013	 220,232

The Company's RSUs and PSUs are not participating securities. These units will be converted into shares of Company common stock in accordance with the distribution date indicated in the agreements. RSUs earn dividend equivalents from the time of the award until distribution is made in common shares. PSUs earn dividend equivalents from the time the units have been earned based upon Company performance metrics, until distribution is made in common shares. Dividend equivalents are only earned subject to vesting of the underlying RSUs or PSUs, accordingly, such units do not represent participating securities.

8. Pensions and Postretirement Benefits Other than Pensions

The following tables disclose the amount of net periodic benefit costs for the Company's defined benefit plans and other postretirement benefits relating to continuing operations:

	Pension Benefits Domestic			
	Three months ended September 30		Nine months ended September 30	
	2012	2013	2012	2013
Components of net periodic benefit cost:				
Service cost	\$ 2,354	\$ 2,970	\$ 7,061	\$ 8,909
Interest cost	10,714	9,657	32,142	28,972
Expected return on plan assets	(10,754)	(11,889)	(32,264)	(35,666)
Amortization of actuarial loss	9,205	11,086	27,614	33,257
Net periodic benefit cost	\$ 11,519	\$ 11,824	\$ 34,553	\$ 35,472

	Pension Benefits International			
	Three months ended September 30		Nine months ended September 30	
	2012	2013	2012	2013
Components of net periodic benefit cost:				
Service cost	\$ 1	\$ 3	\$ 753	\$ 9
Interest cost	4,280	3,884	12,722	11,611
Expected return on plan assets	(3,892)	(3,716)	(11,371)	(11,108)
Amortization of prior service cost			(184)	
Amortization of actuarial loss	1,643	1,627	5,099	4,865
Cooper Avon curtailment gain			(7,460)	
Net periodic benefit cost	\$ 2,032	\$ 1,798	\$ (441)	\$ 5,377

	Other Postretirement Benefits			
	Three months ended September 30		Nine months ended September 30	
	2012	2013	2012	2013
Components of net periodic benefit cost:				
Service cost	\$ 1,040	\$ 953	\$ 3,121	\$ 2,860
Interest cost	3,133	2,698	9,399	8,094
Amortization of prior service cost	(172)	(142)	(516)	(425)
Amortization of actuarial loss	769	478	2,307	1,436
Net periodic benefit cost	\$ 4,770	\$ 3,987	\$ 14,311	\$ 11,965

Effective April 6, 2012, the Company amended the Cooper Avon Pension Plan to freeze all future pension benefits. As a result of this amendment, the Company recognized a pre-tax pension curtailment gain of \$7,460 which was credited to cost of goods sold in the second quarter of 2012. This curtailment gain represents the prior service credit from a previous plan amendment. In connection with the plan amendment, the Company remeasured the pension plan as of April 6, 2012 and recognized an actuarial gain of \$7,707 through other comprehensive income as a result of changes in actuarial assumptions.

9. Stockholders Equity

The following table reconciles the beginning and end of the period equity accounts attributable to Cooper Tire & Rubber Company and to the noncontrolling shareholders' interests:

	Total Parent Stockholders Equity	Noncontrolling Shareholders Interests in Consolidated Subsidiaries	Total Stockholders Equity
Balance at December 31, 2012	\$ 757,624	\$ 150,792	\$ 908,416
Net income	91,398	16,340	107,738
Other comprehensive income	32,233	2,078	34,311
Dividends payable to noncontrolling shareholders		(9,790)	(9,790)
Stock compensation plans, including tax benefit of \$169	6,747		6,747
Cash dividends \$.315 per share	(19,950)		(19,950)
Balance at September 30, 2013	\$ 868,052	\$ 159,420	\$ 1,027,472

10. Changes in Cumulative Other Comprehensive Loss by Component

The following tables present the changes in Cumulative Other Comprehensive Loss by Component for the three- and nine-month periods ended September 30, 2013. All amounts are presented net of tax. Amounts in parentheses indicate debits.

	Cumulative Currency Translation Adjustment	Three Months Ended Changes in the Fair Value of Derivatives	September 30, 2013 Unrecognized Postretirement Benefit Plans	Total
July 1, 2013	\$ 39,449	\$ 3,278	\$ (574,807)	\$ (532,080)
Other comprehensive income (loss) before reclassifications	11,957	(1,390)(a)	(5,607)	4,960
Amount reclassified from accumulated other comprehensive loss		(478)(b)	8,305(c)	7,827
Net current-period other comprehensive income	11,957	(1,868)	2,698	12,787
September 30, 2013	\$ 51,406	\$ 1,410	\$ (572,109)	\$ (519,293)

- (a) This amount represents \$2,316 of unrealized losses on cash flow hedges, net of tax of \$926, that were recognized in Other Comprehensive Loss (see Footnote 4 Fair Value of Financial Instruments for additional details).
- (b) This amount represents \$889 of gains on cash flow hedges, net of tax of \$411, that were reclassified out of Cumulative Other Comprehensive Loss and are included in Other income on the Condensed Consolidated Statements of Income (see Footnote 4 Fair Value of Financial Instruments for additional details).
- (c) This amount represents amortization of prior service credit of \$142 and amortization of actuarial losses of (\$13,191), net of tax of \$4,744, that were reclassified out of Cumulative Other Comprehensive Loss and are included in the computation of net periodic benefit cost (see Footnote 8 Pension and Postretirement Benefits Other than Pensions for additional details).

	Cumulative	Nine Months Ended	September 30, 2013	
	Currency	Changes	Unrecognized	Total
	Translation	in the	Postretirement	
	Adjustment	Fair	Benefit	
		Value of	Plans	
		Derivatives		
December 31, 2012	\$ 44,135	\$ 427	\$ (596,088)	\$ (551,526)
Other comprehensive income (loss) before reclassifications	7,271	1,679(a)	(918)	8,032
Amount reclassified from accumulated other comprehensive loss		(696)(b)	24,897(c)	24,201
Net current-period other comprehensive income (loss)	7,271	983	23,979	32,233
September 30, 2013	\$ 51,406	\$ 1,410	\$ (572,109)	\$ (519,293)

- (a) This amount represents \$2,926 of unrealized gains on cash flow hedges, net of tax of \$1,247, that were recognized in Other Comprehensive Loss (see Footnote 4 Fair Value of Financial Instruments for additional details).
- (b) This amount represents \$1,338 of gains on cash flow hedges, net of tax of \$642, that were reclassified out of Cumulative Other Comprehensive Loss and are included in Other income on the Condensed Consolidated Statements of Income (see Footnote 4 Fair Value of Financial Instruments for additional details).
- (c) This amount represents amortization of prior service credit of \$425 and amortization of actuarial losses of (\$39,558), net of tax of \$14,236, that were reclassified out of Cumulative Other Comprehensive Loss and are included in the computation of net periodic benefit cost (see Footnote 8 Pensions and Postretirement Benefits Other than Pensions for additional details).

11. Comprehensive Income Attributable to Noncontrolling Shareholders Interests

The following table provides the details of the comprehensive income attributable to noncontrolling shareholders interests:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2013	2012	2013
Net income attributable to noncontrolling shareholders interests	\$ 8,598	\$ 3,469	\$ 21,924	\$ 16,340
Other comprehensive income:				
Currency translation adjustments	934	327	1,561	2,078
Comprehensive income attributable to noncontrolling shareholders interests	\$ 9,532	\$ 3,796	\$ 23,485	\$ 18,418

12. Product Warranty Liabilities

The Company provides for the estimated cost of product warranties at the time revenue is recognized based primarily on historical return rates, estimates of the eligible tire population and the value of tires to be replaced. The following table summarizes the activity in the Company's product warranty liabilities:

	2012	2013
Reserve at January 1	\$ 27,400	\$ 30,139
Additions	19,656	15,032
Payments	(15,430)	(13,350)
Reserve at September 30	\$ 31,626	\$ 31,821

13. Contingent Liabilities

The Company is a defendant in various products liability claims brought in numerous jurisdictions in which individuals seek damages resulting from motor vehicle accidents allegedly caused by defective tires manufactured by the Company. Each of the products liability claims faced by the Company generally involve different types of tires, models and lines, different circumstances surrounding the accident such as different applications, vehicles, speeds, road conditions, weather conditions, driver error, tire repair and maintenance practices, service life conditions, as well as different jurisdictions and different injuries. In addition, in many of the Company's products liability lawsuits the plaintiff alleges that his or her harm was caused by one or more co-defendants who acted independently of the Company. Accordingly, both the claims asserted and the resolutions of those claims have an enormous amount of variability. The aggregate amount of damages asserted at any point in time is not determinable since often times when claims are filed, the plaintiffs do not specify the amount of damages. Even when there is an amount alleged, at times the amount is wildly inflated and has no rational basis.

The fact that the Company is a defendant in products liability lawsuits is not surprising given the current litigation climate, which is largely confined to the United States. However, the fact that the Company is subject to claims does not indicate that there is a quality issue with the Company's tires. The Company sells approximately 30 to 35 million passenger, light truck, SUV, radial medium truck and motorcycle tires per year in North America. The Company estimates that approximately 300 million Company-produced tires—made up of thousands of different specifications—are still on the road in North America. While tire disablements do occur, it is the Company's and the tire industry's experience that the vast majority of tire failures relate to service-related conditions, which are entirely out of the Company's control—such as failure to maintain proper tire pressure, improper maintenance, road hazard and excessive speed.

The Company accrues costs for products liability at the time a loss is probable and the amount of loss can be estimated. The Company believes the probability of loss can be established and the amount of loss can be estimated only after certain minimum information is available, including verification that Company-produced products were involved in the incident giving rise to the claim, the condition of the product purported to be involved in the claim, the nature of the incident giving rise to the claim and the extent of the purported injury or damages. In cases where such information is known, each products liability claim is evaluated based on its specific facts and circumstances. A judgment is then made to determine the requirement for establishment or revision of an accrual for any potential liability. The liability often cannot be determined with precision until the claim is resolved.

Pursuant to applicable accounting rules, the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. The Company uses a range of losses because an average cost would not be meaningful since the products liability claims faced by the Company are unique and widely variable, and accordingly, the resolutions of those claims have an enormous amount of variability. The costs have ranged from zero dollars to \$33 million in one case with no average that is meaningful. No specific accrual is made for individual unasserted claims or for premature claims, asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known. However, an accrual for such claims based, in part, on management's expectations for future litigation activity and the settled claims history is maintained. Because of the speculative nature of litigation in the U.S., the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The Company's experience has demonstrated that its estimates have been reasonably accurate and, on average, cases are settled at amounts close to the reserves established. However, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

The Company determines its reserves using the number of incidents expected during a year. During the third quarter of 2013, the Company increased its products liability reserve by \$17,142. The addition of another year of self-insured incidents accounted for \$12,609 of this increase. The Company revised its estimates of future settlements for unasserted and premature claims. These revisions increased the reserve by \$1,621. Finally, settlements and changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by \$2,912.

During the first nine months of 2013, the Company increased its products liability reserve by \$45,705. The addition of another year of self-insured incidents accounted for \$37,827 of this increase. The Company revised its estimates of future settlements for unasserted and premature claims. These revisions increased the reserve by \$5,853. Finally, settlements and changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by \$2,025.

The time frame for the payment of a products liability claim is too variable to be meaningful. From the time a claim is filed to its ultimate disposition depends on the unique nature of the case, how it is resolved—claim dismissed, negotiated settlement, trial verdict and appeals process and is highly dependent on jurisdiction, specific facts, the plaintiff's attorney, the court's docket and other factors. Given that some claims may be resolved in weeks and others may take five years or more, it is impossible to predict with any reasonable reliability the time frame over which the accrued amounts may be paid.

The Company paid \$6,875 during the third quarter of 2013 to resolve cases and claims and has paid \$30,715 through the first nine months of 2013. The Company's products liability reserve balance at December 31, 2012 totaled \$206,349 (the current portion of \$70,267 is included in Accrued liabilities and the long-term portion is included in Other long-term liabilities on the Condensed Consolidated Balance Sheets) and the balance at September 30, 2013 totaled \$221,339 (current portion of \$98,089). The increase in the current portion is the result of the Company's resolution of a particular case on October 15, 2013.

The products liability expense reported by the Company includes amortization of insurance premium costs, adjustments to settlement reserves and legal costs incurred in defending claims against the Company offset by recoveries of legal fees. Legal costs are expensed as incurred and products liability insurance premiums are amortized over coverage periods.

For the three-month periods ended September 30, 2012 and 2013, products liability expenses totaled \$27,906 and \$25,722, respectively. For the nine-month periods ended September 30, 2012 and 2013, products liability expenses totaled \$81,325 and \$67,924, respectively. Products liability expenses are included in cost of goods sold in the Condensed Consolidated Statements of Operations.

14. Income Taxes

For the quarter ended September 30, 2013, the Company recorded income tax expense of \$17,845 (effective rate of 44.7 percent excluding discrete items) as compared to \$40,004 (effective rate of 31.0 percent excluding discrete items) for the comparable period in 2012. For the nine-month period ended September 30, 2013, the Company recorded income tax expense of \$65,104 (effective rate of 32.9 percent excluding discrete items) as compared to \$81,650 (effective rate of 31.7 percent excluding discrete items) for the comparable period in 2012. The 2013 quarter and nine-month period income tax expense is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. This rate differs from the U.S. federal statutory rate of 35 percent primarily because of the projected mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances. Income tax expense for the three- and nine-month periods is lower due to decreased earnings in both the U.S. and non-U.S. jurisdictions compared to the same periods of the prior year.

Tax expense for the three- and nine-month periods ended September 30, 2013 included discrete tax expense of \$8,389 and \$8,292, respectively. This primarily includes amounts recorded for U.S. return to provision differences, the expiration of unused state tax credits, the unfavorable impact on deferred tax assets from a U.K. statutory tax rate reduction and additional expense for uncertain tax positions. For the three and nine-month periods ended September 30, 2012, income tax expense included a discrete tax expense of \$1,937 and \$2,056, respectively, primarily related to the unfavorable impact on deferred tax assets from a U.K. statutory tax rate reduction of \$2,112.

The Company continues to maintain a valuation allowance pursuant to ASC 740, Accounting for Income Taxes, against a portion of its U.S. and non-U.S. deferred tax asset position, as it cannot assure the utilization of these assets before they expire. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a capital loss carryforward by a valuation allowance of \$22,019. In addition, the Company has recorded valuation allowances of \$8,085 relating to non-U.S. net operating losses for a total valuation allowance of \$30,104. In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when they are deemed to be realizable.

The Company maintains an ASC 740-10, Accounting for Uncertainty in Income Taxes, liability for unrecognized tax benefits for permanent and temporary book/tax differences. At September 30, 2013, the Company's liability, exclusive of interest, totals approximately \$5,389. The Company accrued an immaterial amount of interest expense related to these unrecognized tax benefits during the quarter and the nine-month period.

The Company and its subsidiaries are subject to income tax examination in the U.S. federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and foreign tax examinations by income and franchise tax authorities for years prior to 2007.

15. Subsequent Events

On June 12, 2013, the Company and Apollo announced the execution of the Agreement and Plan of Merger under which a wholly-owned subsidiary of Apollo was to acquire the Company in an all-cash transaction valued at approximately \$2.5 billion. On December 30, 2013, the Company terminated the Agreement and Plan of Merger.

On October 4, 2013, the Company filed a complaint in Court of Chancery of the State of Delaware, captioned Cooper Tire & Rubber Co. v. Apollo (Mauritius) Holdings Pvt. Ltd. et al., No. 8980-VCG, asking that certain affiliates of Apollo be required to use their reasonable best efforts to close the then-pending merger transaction as expeditiously as possible and also seeking, among other things, declaratory relief and damages. On October 14, 2013, the Apollo entities filed counterclaims against the Company, seeking declaratory and injunctive relief.

On November 8, 2013, after expedited proceedings, the court found that the Apollo entities had not materially breached the Agreement and Plan of Merger. On December 19, 2013, the Apollo entities moved for an entry of declaratory judgment, seeking a declaration that the conditions to closing the then-pending transaction were not satisfied before the November 2013 trial. On December 30, 2013, the Company terminated the Agreement and Plan of Merger, and requested payment of the reverse termination fee, which the Apollo entities have refused to do. On January 27, 2014, the court determined that it would proceed with a decision on the Apollo entities' motion for declaratory judgment, once briefing on that motion is complete.

On January 17, 2014, alleged stockholders of the Company filed a putative class-action lawsuit in the United States District Court for the District of Delaware relating to the terminated Apollo transaction. That lawsuit, captioned *OFI Risk Arbitrages, et al. v. Cooper Tire & Rubber Co., et al.*, No. 1:14-cv-00068-LPS, generally alleges that the Company and certain officers violated the federal securities laws by issuing allegedly misleading disclosures in connection with the terminated transaction and seeks, among other things, damages. The Company and its officers believe that the allegations against them lack merit and intend to defend the lawsuit vigorously.

On February 24, 2014, a purported stockholder of the Company filed a derivative action on behalf of the Company in the U.S. District Court for the Northern District of Ohio against certain current officers and the current members of the Company's board of directors. The Company is named as a nominal defendant, and the lawsuit seeks recovery for the benefit of the Company. The lawsuit, captioned *Bui v. Armes, et al.*, No. 3:14-cv-00428, alleges that the defendants breached their fiduciary duties to the Company by issuing allegedly misleading disclosures in connection with the terminated merger transaction. The complaint also asserts claims for corporate waste and unjust enrichment. The complaint seeks, among other things, unspecified money damages from the defendants, injunctive relief, and an award of attorney's fees.

The outcome of the above litigation cannot be predicted with certainty and settlement amounts are not estimable.

On July 13, 2013, workers at the Company's Cooper Chengshan (Shandong) Tire Company LTD joint venture (CCT) began a temporary work stoppage related to concerns regarding a pending merger agreement between Apollo and the Company. On August 17, 2013, those workers returned to work on a limited basis to manufacture only non-Cooper branded products, but took other disruptive actions, including denying access to certain representatives of the Company and withholding certain business and financial information. On December 30, 2013, the Company terminated the merger agreement. Since this date, representatives of the Company regained access to the CCT facilities, including its business and financial information, and the operation has resumed production of Cooper-branded products.

In January 2014, the Company entered into an agreement (the CCT Agreement) with Chengshan Group Company Ltd. (Chengshan) and The Union of Cooper Chengshan (Shandong) Tire Company Co., Ltd. (the Union) regarding CCT that provides, among other matters, that the Union and Chengshan will provide support to return CCT to normal operations, in accordance with the existing joint venture agreement. In addition, the CCT Agreement provides Chengshan, with certain conditions and exceptions, a limited contractual right to either (i) purchase the Company's equity interest in CCT or (ii) sell its equity interest in CCT to the Company. In the event Chengshan elects not to exercise its right to purchase the Company's equity interest or sell its interest in CCT to the Company, the Company has the right to purchase Chengshan's equity interest in CCT subject to certain conditions. The CCT Agreement further stipulates that should Chengshan purchase the Company's equity interest in the joint venture, the Company will continue to have offtake rights with CCT agreeing to produce Cooper-branded products for a minimum of three years. In the event neither Chengshan nor the Company exercises their respective options prior to their expiration, the agreement allows for continuation of the joint venture as currently structured. For further information on the CCT Agreement, refer to the Form 8-K the Company filed on January 31, 2014.

The CCT Agreement is separate and in addition to the purchase, sale, transfer, right of first refusal and other protective rights set forth in the existing joint venture agreement between the Company and Chengshan with respect to CCT, which continues to be in effect and fully operational.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) presents information related to the consolidated results of the operations of the Company, a discussion of past results for both of the Company's segments, future outlook for the Company and information concerning the liquidity and capital resources of the Company. The Company's future results may differ materially from those indicated herein, for reasons including those indicated under the forward-looking statements heading below.

Consolidated Results of Operations

(Dollar amounts in millions except per share amounts)	Three months ended September 30			Nine months ended September 30		
	2012	Change	2013	2012	Change	2013
Revenues:						
North American Tire						
External customers	\$ 796.0	-22.3%	\$ 618.8	\$ 2,212.7	-18.1%	\$ 1,812.8
Intercompany	20.3	-30.0%	14.2	71.9	-36.4%	45.7
	816.3	-22.5%	633.0	2,284.6	-18.7%	1,858.5
International Tire						
External customers	299.6	-28.7%	213.6	925.7	-17.3%	765.4
Intercompany	111.6	-54.4%	50.9	308.6	-37.4%	193.3
	411.2	-35.7%	264.5	1,234.3	-22.3%	958.7
Eliminations	(131.9)	-50.6%	(65.1)	(380.5)	-37.2%	(239.0)
Net sales	\$ 1,095.6	-24.0%	\$ 832.4	\$ 3,138.4	-17.8%	\$ 2,578.2
Segment profit (loss)						
North American Tire	\$ 104.8	-63.0%	\$ 38.8	\$ 192.7	-12.1%	\$ 169.4
International Tire	35.5	-91.3%	3.1	111.4	-44.1%	62.3
Eliminations	(3.1)	-154.8%	1.7	(7.0)	-141.4%	2.9
Unallocated corporate charges	(7.6)	106.6%	(15.7)	(24.4)	67.6%	(40.9)
Operating profit	129.6	-78.5%	27.9	272.7	-29.0%	193.7
Interest expense	(7.1)	-5.6%	(6.7)	(23.9)	-12.1%	(21.0)
Interest income	0.5	-40.0%	0.3	1.9	-63.2%	0.7
Other income (expense)	(0.3)	0.0%	(0.3)	0.3	-300.0%	(0.6)
Income before income taxes	122.7	-82.7%	21.2	251.0	-31.2%	172.8
Income tax expense	40.0	-55.5%	17.8	81.7	-20.3%	65.1
Net Income	82.7	-95.9%	3.4	169.3	-36.4%	107.7
Noncontrolling shareholders' interests	(8.6)	-59.3%	(3.5)	(21.9)	-25.6%	(16.3)
Net income (loss) attributable to Cooper Tire & Rubber Company	\$ 74.1	-100.1%	\$ (0.1)	\$ 147.4	-38.0%	\$ 91.4
Basic earnings per share	\$ 1.18		\$	\$ 2.36		\$
Diluted earnings per share	\$ 1.17		\$	\$ 2.34		\$

Consolidated net sales for the three-month period ended September 30, 2013 were \$832 million, a decrease of \$263 million from the comparable period one year ago. The decrease in net sales for the third quarter of 2013 compared with the third quarter of 2012 was the result of reduced unit volumes (\$183 million) and less favorable pricing and mix (\$88 million). The International Tire Operations segment experienced favorable exchange rates in the third quarter of 2013 (\$7 million). The labor issues at CCT accounted for \$122 million of the reduction in unit volumes for the quarter across both segments.

The Company recorded operating profit in the third quarter of 2013 of \$28 million, a decrease of \$102 million compared with the third quarter of 2012. The negative impact of the labor issues at CCT on operating profit was \$29 million in the third quarter. The labor issues resulted in reduced volume (\$22 million) across both segments and manufacturing inefficiencies (\$7 million) in the International Tire Operations segment. Additionally, the Company incurred \$5 million of selling, general and administrative costs in the third quarter associated with the Agreement and Plan of Merger.

In addition to the items described above, operating profit in the third quarter of 2013 included lower raw material costs (\$36 million) and lower products liability charges (\$2 million), which were offset by unfavorable pricing and mix (\$76 million) and lower unit volumes (\$22 million). Manufacturing cost efficiencies were \$11 million unfavorable, which includes the costs associated with production curtailments incurred in the North American Tire Operations segment (\$13 million) in the third quarter of 2013. Selling, general and administrative costs were lower (\$3 million) compared with the same period in 2012.

Consolidated net sales for the nine-month period ended September 30, 2013 were \$2,578 million, a decrease of \$560 million from the comparable period one year ago. The decrease in net sales for the first nine months of 2013 compared with the first nine months of 2012 was the result of reduced unit volumes (\$373 million) and less favorable pricing and mix (\$197 million). The International Tire Operations segment experienced favorable exchange rates during the first nine months of 2013 (\$10 million). The labor issues at CCT accounted for \$122 million of the reduction in unit volumes across both segments.

The Company recorded operating profit in the first nine months of 2013 of \$194 million, a decrease of \$79 million compared with the first nine months of 2012. The negative impact of the labor issues at CCT on operating profit was \$29 million in the first nine months of 2013. The labor issues resulted in reduced volume (\$22 million) across both segments and manufacturing inefficiencies (\$7 million) in the International Tire Operations segment. Additionally, the Company incurred \$9 million of selling, general and administrative costs in the first nine months of 2013 associated with the Agreement and Plan of Merger. The International Tire Operations segment operating profit included start-up costs related to the Company's operations in Serbia (\$5 million) and a pension curtailment gain (\$7 million) during the first nine months of 2012, neither of which recurred during 2013. The 2012 results also include \$29 million of costs incurred related to labor issues at the Findlay, Ohio manufacturing facility within the North American Tire Operations segment.

In addition to the items described above, operating profit in the first nine months of 2013 included lower raw material costs (\$246 million) and lower products liability charges (\$13 million), which were offset by unfavorable pricing and mix (\$200 million), lower unit volumes (\$73 million) and increased selling, general and administrative costs (\$13 million). Manufacturing cost efficiencies were \$30 million unfavorable when compared with the first nine months of 2012, which includes the costs associated with production curtailments (\$23 million) incurred in the North American Tire Operations segment in 2013. Other operating costs, including increased distribution costs associated with carrying higher inventories, were unfavorable (\$11 million) compared with the same period in 2012.

The Company experienced decreases in the costs of certain of its principal raw materials during the first nine months of 2013 compared with the comparable period of 2012. The principal raw materials for the Company include natural rubber, synthetic rubber, carbon black, chemicals and steel reinforcement components. Approximately 65 percent of the Company's raw materials are petroleum-based. Substantially all U.S. inventories have been valued using the LIFO method of inventory costing which accelerates the impact to cost of goods sold from changes to raw material prices.

The Company strives to assure raw material and energy supply and to obtain the most favorable pricing possible. For natural rubber and natural gas, procurement is managed through a combination of buying forward of production requirements and utilizing the spot market. For other principal materials, procurement arrangements include supply agreements that may contain formula-based pricing based on commodity indices, multi-year agreements or spot purchase contracts. While the Company uses these arrangements to satisfy normal manufacturing demands, the pricing volatility in these commodities contributes to the difficulty in managing the costs of raw materials.

Products liability expenses totaled \$26 million and \$28 million in the third quarter of 2013 and 2012, respectively. Products liability expenses totaled \$68 million and \$81 million in the first nine months of 2013 and 2012, respectively. The change in the liability results from claim settlements and adjustments to existing reserves based on the Company's quarterly comprehensive review of outstanding claims. Additional information related to the Company's accounting for products liability costs appears in the Notes to the Condensed Consolidated Financial Statements.

Selling, general, and administrative expenses were \$69 million in the third quarter of 2013 (8.3 percent of net sales) and \$69 million in the third quarter of 2012 (6.3 percent of net sales). The increase in selling, general and administrative expenses as a percent of sales in the third quarter was due to lower net revenue. Third quarter 2013 costs included costs incurred relating to the Agreement and Plan of Merger and increased capitalized software amortization expense and professional service support fees related to the Company's new ERP system. These increases were partially offset by lower incentive related expenses. For the nine-month period ended September 30, 2013, selling, general and administrative expenses were \$212 million (8.2 percent of net sales) compared to \$190 million (6.0 percent of net sales) for the comparable period of 2012. In addition to the increase cited for the quarter, the Company's continued investment in Cooper brands globally also contributed to higher costs for the nine month period.

Interest expense for the third quarter of 2013 remained consistent with the third quarter of 2012 and decreased \$3 million on a year to date basis when compared to the comparable period of 2012, primarily as the result of lower debt levels.

Interest income and other income have remained relatively constant during both the third quarter and on a year-to-date basis when compared to the comparable periods of 2012.

For the quarter ended September 30, 2013, the Company recorded income tax expense of \$18 million (effective rate of 44.7 percent excluding discrete items) as compared to \$40 million (effective rate of 31.0 percent excluding discrete items) for the comparable period in 2012. For the nine-month period ended September 30, 2013, the Company recorded income tax expense of \$65 million (effective rate of 32.9 percent excluding discrete items) as compared to \$82 million (effective rate of 31.7 percent excluding discrete items) for the comparable period in 2012. The 2013 quarter and nine-month period income tax expense is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. This is impacted by the projected mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances. Income tax expense for the quarter and nine-month period is lower due to decreased pretax earnings, mostly in the U.S.

Tax expense for both the three- and nine-month periods ended September 30, 2013 included discrete tax expense of \$8 million. This primarily includes amounts recorded for U.S. return to provision differences, the expiration of unused state tax credits, the unfavorable impact on deferred tax assets from a U.K. statutory tax rate reduction and additional expense for uncertain tax positions. For the three and nine-month periods ended September 30, 2012, income tax expense included a discrete tax expense of \$2 million for each period primarily related to the unfavorable impact on deferred tax assets from a U.K. statutory tax rate reduction.

The Company continues to maintain a valuation allowance pursuant to ASC 740, Accounting for Income Taxes, against a portion of its U.S. and non-U.S. deferred tax asset position, as it cannot assure the utilization of these assets before they expire. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a capital loss carryforward by a valuation allowance of \$22 million. In addition, the Company has recorded valuation allowances of \$8 million relating to non-U.S. net operating losses for a total valuation allowance of \$30 million. In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when they are deemed to be realizable.

North American Tire Operations Segment

(Dollar amounts in millions)	Three months ended September 30			Nine months ended September 30		
	2012	Change	2013	2012	Change	2013
Net sales	\$ 816.3	-22.5%	\$ 633.0	\$ 2,284.6	-18.7%	\$ 1,858.5
Operating profit	\$ 104.8	-63.0%	\$ 38.8	\$ 192.7	-12.1%	\$ 169.4
Operating margin	12.8%	-6.7 points	6.1%	8.4%	0.7 points	9.1%
United States unit shipments changes:						
Passenger tires						
Segment		-16.0%			-14.3%	
RMA members		0.2%			-3.0%	
Total Industry		11.9%			5.7%	
Light truck tires						
Segment		-9.5%			-13.7%	
RMA members		-0.5%			-2.6%	
Total Industry		10.5%			7.0%	
Total light vehicle tires						
Segment		-14.6%			-14.2%	
RMA members		0.1%			-2.9%	
Total Industry		11.7%			5.9%	
Total segment unit sales change		-15.1%			-15.0%	

The source of this information is the Rubber Manufacturers Association (RMA) and internal sources.

Overview

The North American Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. In addition to manufacturing tires in the U.S., the segment has a joint venture manufacturing operation in Mexico, Corporacion de Occidente SA de CV (COOCSA). The segment also distributes tires for racing, medium truck and motorcycles that are manufactured at the Company's subsidiaries. Major distribution channels and customers include independent tire dealers, wholesale distributors, regional and national retail tire chains, and large retail chains that sell tires as well as other automotive products. The segment does not currently sell its products directly to end users, except through three Company-owned retail stores. The segment sells a limited number of tires to original equipment manufacturers.

Sales

Net sales of the North American Tire Operations segment for the third quarter of 2013 decreased \$183 million, or 22.5 percent from the third quarter of 2012. The decrease in sales was a result of lower unit volumes (\$123 million) and unfavorable pricing and mix (\$60 million). Unit shipments for the segment decreased 15.1 percent compared with the third quarter of 2012. In the U.S., the segment's unit shipments of total light vehicle tires decreased 14.6 percent in the third quarter of 2013 compared with the third quarter of 2012. This decrease compares with a 0.1 percent increase in total light vehicle shipments experienced by the members of the Rubber Manufacturers Association (RMA), and an 11.7 percent increase in total light vehicle shipments experienced for the total industry (which includes an estimate for non-RMA members). The reduced volume in the North American segment is a result of increased competition from imports, primarily on private label and lower value entry level consumer tires. Additionally, volumes were impacted by the effects on shipping efficiency resulting from the continued implementation of an ERP system in the U.S. The labor issues at CCT accounted for \$29 million of the reduction in unit volumes for the quarter.

Net sales of the North American Tire Operations segment for the first nine months of 2013 decreased \$426 million, or 18.7 percent from the first nine months of 2012. The decrease in sales was a result of lower unit volumes (\$344 million) and unfavorable pricing and mix (\$82 million). Unit shipments for the segment decreased 15.0 percent compared with the nine-month period ended September 30, 2012. In the U.S., the segment's unit shipments of total light vehicle tires decreased 14.2 percent in the first nine months of 2013 compared with the comparable period of 2012. This decrease compares with a 2.9 percent decrease in total light vehicle shipments experienced by the members of the RMA, and a 5.9 percent increase in total light vehicle shipments experienced for the total industry. The performance of the segment against the industry for the nine-month period is attributable to the same factors outlined for the third quarter.

Operating Profit

Operating profit for the segment decreased \$66 million to \$39 million in the third quarter of 2013 compared to the third quarter of 2012. Lower raw material costs (\$20 million) and lower products liability charges (\$2 million) were offset by unfavorable pricing and mix (\$53 million). Unit volumes were lower (\$26 million), including \$6 million as a result of the labor issues at CCT. Selling, general and administrative costs (\$5 million) were lower in the third quarter of 2013, reflecting primarily lower incentive related expenses. Manufacturing cost efficiencies were \$12 million unfavorable, which includes the costs associated with production curtailments (\$13 million) incurred in the third quarter of 2013. Other operating costs were unfavorable (\$2 million) compared with the same period in 2012.

Operating profit for the segment decreased \$23 million to \$169 million in the first nine months of 2013. Lower raw material costs (\$165 million) and lower products liability charges (\$13 million) were offset by unfavorable pricing and mix (\$113 million) and lower unit volumes (\$73 million), including \$6 million as a result of the labor issues at CCT. Selling, general and administrative costs (\$8 million) were higher in the first nine months of 2013 due to investments in driving brand awareness and increased capitalized software amortization expense, partially offset by lower incentive related compensation expense. Other operating costs, including increased distribution costs associated with carrying higher inventories and the effects on shipping efficiency resulting from the continued implementation of an ERP system, were unfavorable (\$9 million) compared with the same period in 2012.

Manufacturing cost efficiencies for the first nine months of 2013 were \$2 million favorable, which includes the costs associated with production curtailments (\$23 million) incurred in the first nine months of 2013. The first quarter of 2012 results include \$29 million of costs incurred related to labor issues at the Findlay, Ohio manufacturing facility.

The segment's internally calculated raw material index of 210 during the quarter was a decrease of 8.1 percent from the same period of 2012. The raw material index decreased 5.5 percent sequentially from the quarter ended June 30, 2013.

International Tire Operations Segment

(Dollar amounts in millions)	Three months ended September 30			Nine months ended September 30		
	2012	Change	2013	2012	Change	2013
Net sales	\$ 411.2	-35.7%	\$ 264.5	\$ 1,234.3	-22.3%	\$ 958.8
Operating profit	\$ 35.5	-91.3%	\$ 3.1	\$ 111.4	-44.1%	\$ 62.3
Operating margin	8.6%	-7.4 points	1.2%	9.0%	-2.5 points	6.5%
Unit sales change		-39.0%			-15.4%	

Overview

The International Tire Operations segment has affiliated operations in the U.K., the PRC and Serbia. The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for domestic and global markets. CCT manufactures and markets radial and bias medium truck tires as well as passenger and light truck tires for domestic and global markets. Cooper Kunshan Tire manufactures light vehicle tires and, under an agreement with the government of the PRC, these tires were exported to markets outside of the PRC through 2012. Beginning in 2013, tires produced at the facility have also been sold in the domestic market. The Serbian entity manufactures light vehicle tires primarily for the European markets. The majority of the tires manufactured by the segment are sold in the replacement market, with a relatively small percentage currently sold to OEMs.

Sales

Net sales of the International Tire Operations segment for the third quarter of 2013 decreased \$147 million, or 35.7 percent from the third quarter of 2012. The decrease in sales was a result of lower unit volumes (\$150 million) and unfavorable pricing and mix (\$4 million). The segment experienced favorable exchange rates in the third quarter of 2013 (\$7 million). Domestic shipments in the PRC were negatively impacted by the work stoppage at CCT. In addition, intercompany shipments to North America were lower primarily due to the work stoppage at CCT. The labor issues at CCT accounted for \$116 million of the reduction in unit volumes for the quarter.

Net sales of the International Tire Operations segment for the first nine months of 2013 decreased \$276 million, or 22.3 percent from the first nine months of 2012. The decrease in sales was a result of lower unit volumes (\$169 million) and unfavorable pricing and mix (\$117 million). The segment experienced favorable exchange rates in the first nine months of 2013 (\$10 million). The performance of the segment for the nine-month period is attributable to the lower intercompany volume through September 30, 2013, coupled with the impact of the work stoppage in the third quarter.

Operating Profit

Operating profit for the segment decreased \$32 million to \$3 million in the third quarter of 2013 from the third quarter of 2012. The impact of the labor issues at CCT on operating profit was \$22 million in the third quarter. The labor issues resulted in reduced volume (\$15 million) and manufacturing inefficiencies (\$7 million).

In addition to the items described above, operating profit in the third quarter included lower raw material costs (\$22 million) and decreased selling, general and administrative costs (\$3 million), which were offset by unfavorable pricing and mix (\$28 million) and lower unit volumes (\$8 million). Other cost changes were favorable (\$1 million) compared with the same period in 2012.

Operating profit for the segment decreased \$49 million to \$62 million in the first nine months of 2013. The impact of the labor issues at CCT on operating profit was \$22 million in the first nine months of 2013. The labor issues resulted in reduced volume (\$15 million) and manufacturing inefficiencies (\$7 million). The International Tire Operations segment operating profit included start-up costs related to the Company's operations in Serbia (\$5 million) and a pension curtailment gain (\$7 million) during the first nine months of 2012, neither of which recurred during 2013.

In addition to the items described above, operating profit in the first nine months of 2013 included lower raw material costs (\$107 million) and decreased selling, general and administrative costs (\$2 million), which were offset by unfavorable pricing and mix (\$118 million), lower unit volumes (\$11 million) and unfavorable manufacturing efficiencies (\$4 million). Other cost changes were unfavorable (\$1 million) compared with the same period in 2012.

Outlook for Company

On July 13, 2013, workers at CCT began a temporary work stoppage related to concerns regarding the then-pending merger between Apollo and the Company. While workers returned to work at CCT on August 17, 2013, and production resumed, the plant did not begin to produce Cooper-branded products and withheld certain financial information. On December 30, 2013, the Company terminated the merger agreement. Since this date, representatives of the Company regained access to the CCT facilities, including its business and financial information, and the operation has resumed production of Cooper-branded products. The lost production of Cooper-branded tires from this plant will negatively affect the Company's future financial performance. In addition, the limited access to certain financial information has affected and could continue to affect the Company's ability to report financial results on a timely basis.

Third quarter raw material prices were down by approximately 8.1 percent from the third quarter of 2012. Management expects to report fourth quarter raw material prices will decline approximately 1.3 percent sequentially compared to the third quarter. The long-term raw material outlook is for prices to generally trend higher with periods of volatility.

The Company continues to invest in its business, capital expenditures for 2013 will be between \$180 million to \$190 million.

The Company's tax rate for 2013 is expected to be between 36 percent and 40 percent.

The Company will report positive Operating Profit and Net Income Attributable to Cooper Tire & Rubber Company for the fourth quarter and second half of 2013 despite the negative effects that occurred in the third quarter related to the Apollo merger agreement as well as increased competition that reduced the Company's private label and lower price point tire volumes in North America. These negative impacts are expected to carry over into the results for the fourth quarter of 2013 and beyond, but to a lesser degree. The Company remains confident that its transformed business model and continued solid execution of its strategic plan will position it to perform well in the future.

The Company will report 2013 year-end cash and cash equivalents approaching \$400 million.

Liquidity and Capital Resources

Generation and uses of cash Operating activities generated \$123 million of cash during the first nine months of 2013 compared to a cash generation of \$292 million during the first nine months of 2012. In 2013, the Company did not increase inventory balances due in part to the labor situation at CCT. Accounts payable balances decreased during the first nine months of 2013 as the Company reduced raw material purchases in conjunction with its inventory management actions while in 2012, accounts payable balances increased as the Company purchased raw materials to increase production upon conclusion of the labor situation in Findlay. The change in other items relates to changes in the income taxes payable balances and the long-term portion of the products liability balance.

Net cash used in investing activities during the first nine months of 2012 and 2013 reflect capital expenditures of \$123 million and \$135 million, respectively. The increased spending is related primarily to automation projects and spending at the manufacturing facility in Serbia. During the first quarter of 2012, the Company acquired assets in Serbia for approximately \$19 million.

During the first nine months of 2012, the Company's subsidiaries repaid \$84 million of short-term notes and during the first nine months of 2013, the Company's subsidiaries repaid \$7 million of short-term notes. In both 2012 and 2013, the Company's subsidiaries borrowed additional funds using long-term debt and repaid \$22 million and \$19 million of maturing long-term debt, respectively.

Dividends paid on the Company's common shares in each of the first nine months of 2012 and 2013 were \$20 million. During the first nine months of 2012 and 2013, the Company paid \$3 million and \$10 million in dividends to noncontrolling shareholders, respectively.

Available cash, credit facilities and contractual commitments At September 30, 2013, the Company had cash and cash equivalents of \$310 million.

Domestically, the Company has a revolving credit facility with a consortium of four banks that provides up to \$200 million based on available collateral and expires in July 2016. The Company also has an accounts receivable securitization facility with a \$175 million limit with a June 2015 maturity. These credit facilities remain undrawn, other than to secure letters of credit, and have no significant financial covenants until available credit is less than specified amounts. The Company's additional borrowing capacity based on eligible collateral through use of its credit facility with its bank group and its accounts receivable securitization facility at September 30, 2013 was \$235 million.

The Company's affiliated operations in Asia have annual renewable unsecured credit lines that provide up to \$415 million of borrowings and do not contain financial covenants. The additional borrowing capacity on the Asian credit lines totaled \$360 million.

The Company believes that available cash from operating cash flows and credit facilities will be adequate to fund its needs, including working capital requirements, projected capital expenditures, including its portion of capital expenditures in partially-owned subsidiaries, and dividend goals. The entire amount of short-term notes payable outstanding at September 30, 2013 is primarily debt of consolidated subsidiaries. The Company expects its subsidiaries to refinance or pay these amounts during 2013.

The Company expects capital expenditures for 2013 to be in the \$180 to \$190 million range.

The following table summarizes long-term debt at September 30, 2013:

Parent company	
8% unsecured notes due December 2019	\$ 173.6
7.625% unsecured notes due March 2027	116.9
Capitalized leases and other	8.7
	299.2
Consolidated Subsidiaries	
4.28% to 6.15% unsecured notes due in 2014	20.6
4.28% to 4.70% unsecured notes due in 2015	8.5
4.00% to 6.15% unsecured notes due in 2016	11.1
5.88% and 6.51% secured notes due in 2016	4.9
	45.1
Total debt	344.3
Less current maturities	17.9
	\$ 326.4

Contingencies

The Company is a defendant in various products liability claims brought in numerous jurisdictions in which individuals seek damages resulting from automobile accidents allegedly caused by defective tires manufactured by the Company. Each of the products liability claims faced by the Company generally involve different types of tires, models and lines, different circumstances surrounding the accident such as different applications, vehicles, speeds, road conditions, weather conditions, driver error, tire repair and maintenance practices, service life conditions, as well as different jurisdictions and different injuries. In addition, in many of the Company's products liability lawsuits the plaintiff alleges that his or her harm was caused by one or more co-defendants who acted independently of the Company. Accordingly, both the claims asserted and the resolutions of those claims have an enormous amount of variability. The aggregate amount of damages asserted at any point in time is not determinable since often times when claims are filed, the plaintiffs do not specify the amount of damages. Even when there is an amount alleged, at times the amount is wildly inflated and has no rational basis.

Pursuant to applicable accounting rules, the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. The Company uses a range of losses because an average cost would not be meaningful since the products liability claims faced by the Company are unique and widely variable, and accordingly, the resolutions of those claims have an enormous amount of variability. The costs have ranged from zero dollars to \$33 million in one case with no average that is meaningful. No specific accrual is made for individual unasserted claims or for premature claims, asserted claims where the minimum information needed to evaluate the probability of liability is not yet known. However, an accrual for such claims based, in part, on management's expectations for future litigation activity and the settled claims history is maintained. Because of the speculative nature of litigation in the United States, the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The Company's experience has demonstrated that its estimates have been reasonably accurate and, on average, cases are resolved for amounts close to the reserves established. However, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

Forward-Looking Statements

This report contains what the Company believes are forward-looking statements, as that term is defined under the Private Securities Litigation Reform Act of 1995, regarding projections, expectations or matters that the Company anticipates may happen with respect to the future performance of the industries in which the Company operates, the economies of the United States and other countries, or the performance of the Company itself, which involve uncertainty and risk. Such forward-looking statements are generally, though not always, preceded by words such as anticipates, expects, will, should, believes, projects, intends, plans, estimates, and similar terms that connote a view to the future, and are not merely recitations of historical fact. Such statements are made solely on the basis of the Company's current views and perceptions of future events, and there can be no assurance that such statements will prove to be true. It is possible that actual results may differ materially from those projections or expectations due to a variety of factors, including but not limited to:

volatility in raw material and energy prices, including those of rubber, steel, petroleum based products and natural gas and the unavailability of such raw materials or energy sources;

the failure of the Company's suppliers to timely deliver products in accordance with contract specifications;

changes in economic and business conditions in the world;

failure to implement information technologies or related systems, including failure by the Company to successfully implement an ERP system;

increased competitive activity including actions by larger competitors or lower-cost producers;

the failure to achieve expected sales levels;

Edgar Filing: COOPER TIRE & RUBBER CO - Form 10-Q

changes in the Company's customer relationships, including loss of particular business for competitive or other reasons;

the ultimate outcome of litigation brought against the Company, including stockholder lawsuits relating to the Apollo merger as well as products liability claims, in each case which could result in commitment of significant resources and time to defend and possible material damages against the Company;

changes to tariffs or the imposition of new tariffs or trade restrictions;

changes in pension expense and/or funding resulting from investment performance of the Company's pension plan assets and changes in discount rate, salary increase rate, and expected return on plan assets assumptions, or changes to related accounting regulations;

government regulatory and legislative initiatives including environmental and healthcare matters;

volatility in the capital and financial markets or changes to the credit markets and/or access to those markets;

changes in interest or foreign exchange rates;

an adverse change in the Company's credit ratings, which could increase borrowing costs and/or hamper access to the credit markets;

the risks associated with doing business outside of the United States;

the failure to develop technologies, processes or products needed to support consumer demand;

technology advancements; the inability to recover the costs to develop and test new products or processes;

the impact of labor problems, including labor disruptions at the Company, its joint ventures, including CCT, or at one or more of its large customers or suppliers;

failure to attract or retain key personnel;

consolidation among the Company's competitors or customers;

inaccurate assumptions used in developing the Company's strategic plan or operating plans or the inability or failure to successfully implement such plans;

failure to successfully integrate acquisitions into operations or their related financings may impact liquidity and capital resources;

the ability to sustain operations at CCT, including obtaining financial and other operational data of CCT;

changes in the Company's relationship with its joint-venture partners, or changes in the ownership structure of its joint ventures, including changes resulting from the CCT Agreement;

the inability to obtain and maintain price increases to offset higher production or material costs;

inability to adequately protect the Company's intellectual property rights;

inability to use deferred tax assets; and

the ultimate outcome of legal actions brought by the Company against wholly-owned subsidiaries of Apollo Tyres Ltd. It is not possible to foresee or identify all such factors. Any forward-looking statements in this report are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances. Prospective investors are cautioned that any such statements are not a guarantee of future performance and actual results or developments may differ materially from those projected.

The Company makes no commitment to update any forward-looking statement included herein or to disclose any facts, events or circumstances that may affect the accuracy of any forward-looking statement.

Further information covering issues that could materially affect financial performance is contained under Risk Factors below and in the Company's other periodic filings with the U. S. Securities and Exchange Commission (SEC).

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at September 30, 2013, from those detailed in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2012.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the reports the Company files or submits as defined in Rule 13a-15(e) of the Securities and Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to allow timely decisions regarding required disclosures.

Ineffective Disclosure Controls

As a result of circumstances that arose during the third quarter of 2013 due to labor actions relating to the merger agreement with Apollo, the Company was unable to file the third quarter 2013 Form 10-Q within the time period specified in the SEC rules and forms. This filing delay was caused by the inability to obtain certain business and financial information from CCT joint venture in a timely manner. As a result of this situation the Company has concluded that its disclosure controls and procedures were not effective for the third quarter of 2013.

Changes in Internal Controls Over Financial Reporting During the Period

On July 13, 2013, workers at CCT began a temporary work stoppage related to concerns regarding a pending merger agreement between Apollo Tyres Ltd. (Apollo) and the Company. On August 17, 2013, those workers returned to work on a limited basis to manufacture only non-Cooper branded products, but took other disruptive actions, including denying access to certain representatives of the Company and withholding certain business and financial information. On December 30, 2013, the Company terminated the merger agreement. Since this date, representatives of the Company regained access to the CCT facilities, including its business and financial information.

CCT personnel maintained previously established internal controls (historical controls) during the period in which the Company had limited access to CCT financial information. Since regaining access to the business and financial information, the Company and its representatives have performed an evaluation of the historical controls performed at CCT for the quarter ended September 30, 2013. As deemed necessary, the Company and its representatives implemented incremental internal controls in order to provide management with reasonable assurance regarding the reliability of financial reporting and the preparation of the financial information for the quarter ended September 30, 2013. The incremental internal controls included, but were not limited to: additional inventory verification procedures, confirmation of account balances with customers and confirmation of cash and bank note balances with financial institutions as of December 31, 2013. As deemed necessary, procedures were performed to roll back activity from the date of the incremental procedures to the balance sheet date of September 30, 2013.

The Company believes that internal controls over financial reporting at CCT operated effectively for the quarter ended September 30, 2013. This position is supported by the results of the Company s evaluation of the historical controls performed by CCT, coupled with the incremental internal controls performed by the Company once access to the facility was regained.

In addition, the Company is undertaking the phased implementation of a global Enterprise Resource Planning (ERP) software system. The phased implementation was completed for the majority of the North America Tire segment during the first quarter of 2013, resulting in changes to certain processes in that segment. The Company believes that its internal controls over financial reporting are designed and operating effectively during the implementation period and further believes that its internal control over financial reporting will be enhanced as a result of this implementation.

There have been no other changes in the Company s internal controls over financial reporting during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

Conclusion

The Company, under the supervision and with the participation of management, including the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as of September 30, 2013 (Evaluation Date)) using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework (1992) as a basis for its assessment. Based on its initial evaluation, the Company s CEO and CFO concluded that its disclosure controls and procedures were not effective as of the Evaluation Date as a result of the situation at CCT as described above which resulted in the Company s failure to file this Form 10-Q on a timely basis.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Certain Litigation Related to the Apollo Merger

On June 17, 2013, an alleged stockholder of the Company filed a putative class-action lawsuit in the Court of Common Pleas of Hancock County, Ohio relating to the proposed acquisition of the Company (the Apollo transaction) by wholly owned subsidiaries of Apollo Tyres Ltd. (Apollo). That lawsuit, captioned *Auld v. Cooper Tire & Rubber Co., et al.*, No. 2013-CV-293, generally alleges that the directors of the Company breached their fiduciary duties to the Company's stockholders by agreeing to enter into the transaction for an allegedly unfair price and as the result of an allegedly unfair process.

Between June 18 and June 27, 2013, alleged stockholders of the Company filed four other putative class-action lawsuits in the Court of Chancery of the State of Delaware relating to the proposed Apollo transaction. Those lawsuits, which were consolidated under the caption *In re Cooper Tire & Rubber Co. Stockholders Litigation*, No. 8658-VCL, generally allege that the directors of the Company breached their fiduciary duties to the Company's stockholders by agreeing to enter into the then-pending transaction for an allegedly unfair price and as the result of an allegedly unfair process and by failing to disclose material information to stockholders regarding the proposed transaction.

The Company, Apollo and certain affiliates of Apollo are also defendants in the Ohio and Delaware lawsuits, and are alleged to have aided and abetted the directors' breaches of fiduciary duties. All of these Ohio and Delaware lawsuits seek, among other things, declaratory and injunctive relief. The Company and its directors believe that the allegations against them lack merit and intend to defend the lawsuits vigorously.

On October 4, 2013, the Company filed a complaint in the Court of Chancery of the State of Delaware, captioned *Cooper Tire & Rubber Co. v. Apollo (Mauritius) Holdings Pvt. Ltd. et al.*, No. 8980-VCG, asking that certain affiliates of Apollo be required to use their reasonable best efforts to close the then-pending merger transaction as expeditiously as possible and also seeking, among other things, declaratory relief and damages. On October 14, 2013, the Apollo entities filed counterclaims against the Company, seeking declaratory and injunctive relief.

On November 8, 2013, after expedited proceedings, the court found that the Apollo entities had not materially breached the merger agreement. On December 19, 2013, the Apollo entities moved for an entry of declaratory judgment, seeking a declaration that the conditions to closing the then-pending transaction were not satisfied before the November 2013 trial. On December 30, 2013, the Company terminated the merger agreement with the Apollo entities, and requested payment of the reverse termination fee, which the Apollo entities have refused to do. On January 27, 2014, the court determined that it would proceed with a decision on the Apollo entities' motion for declaratory judgment, once briefing on that motion is complete.

Federal Securities Litigation

On January 17, 2014, alleged stockholders of the Company filed a putative class-action lawsuit in the United States District Court for the District of Delaware relating to the terminated Apollo transaction. That lawsuit, captioned *OFI Risk Arbitrages, et al. v. Cooper Tire & Rubber Co., et al.*, No. 1:14-cv-00068-LPS, generally alleges that the Company and certain officers violated the federal securities laws by issuing allegedly misleading disclosures in connection with the terminated transaction and seeks, among other things, damages. The Company and its officers believe that the allegations against them lack merit and intend to defend the lawsuit vigorously.

On February 24, 2014, a purported stockholder of the Company filed a derivative action on behalf of the Company in the U.S. District Court for the Northern District of Ohio against certain current officers and the current members of the Company's board of directors. The Company is named as a nominal defendant, and the lawsuit seeks recovery for the benefit of the Company. The lawsuit, captioned *Bui v. Armes, et al.*, No. 3:14-cv-00428, alleges that the defendants breached their fiduciary duties to the Company by issuing allegedly misleading disclosures in connection with the terminated merger transaction. The complaint also asserts claims for corporate waste and unjust enrichment. The complaint seeks, among other things, unspecified money damages from the defendants, injunctive relief and an award of attorney's fees.

Certain Litigation Related to Joint Venture in China

On July 29, 2013, the Company's CCT joint venture in China was named as a defendant and a subsidiary of the Company was named as a third party in a complaint filed in the Weihai Intermediate People's Court, Weihai, China, by the Company's joint venture partner. In connection with the execution of the CCT Agreement (See Footnote 15 Subsequent Events, above), this complaint was dismissed.

Item 1A. RISK FACTORS

Some of the more significant risk factors related to the Company and its subsidiaries follow:

Pricing volatility for raw materials or commodities or an inadequate supply of key raw materials could result in increased costs and may significantly affect the Company's profitability.

The pricing volatility for natural rubber, petroleum-based materials and other raw materials contributes to the difficulty in managing the costs of raw materials. Costs for certain raw materials used in the Company's operations, including natural rubber, chemicals, carbon black, steel reinforcements and synthetic rubber remain highly volatile. Increasing costs for raw material supplies will increase the Company's production costs and affect its margins if the Company is unable to pass the higher production costs on to its customers in the form of price increases. Further, if the Company is unable to obtain adequate supplies of raw materials in a timely manner for any reason, its operations could be interrupted or otherwise adversely affected.

The Company is facing heightened risks due to the current business environment.

Current global economic conditions may affect demand for the Company's products, create volatility in raw material costs and affect the availability and cost of credit. These conditions also affect the Company's customers and suppliers as well as the ultimate consumer.

Deterioration in the global macroeconomic environment or in specific regions could impact the Company and, depending upon the severity and duration of these factors, the Company's profitability and liquidity position could be negatively impacted.

The Company's competitors may also change their actions as a result of changes to the business environment, which could result in increased price competition and discounts, resulting in lower margins for the business.

The Company is facing risks related to the impact of labor disruptions at its CCT joint venture, changes in the Company's ownership interests in CCT and changes in its relationship with its joint venture partner.

As previously disclosed, the Company has experienced work stoppages and other labor disruptions at CCT related to concerns regarding the then-pending merger agreement between Apollo and the Company, including denying access to certain representatives of the Company and withholding certain business and financial information. On December 30, 2013, the Company terminated the merger agreement with Apollo. Since this date, representatives of the Company regained access to the CCT facilities, including its business and financial information, and operations have returned to normal. Were labor or other disruptions at CCT to resume, it could have a negative effect on the Company's operations, financial position and cash flows, as well as its ability to report its results on a timely basis.

In January 2014, the Company entered into an agreement (the CCT Agreement) with Chengshan Group Company Ltd. (Chengshan) and The Union of Cooper Chengshan (Shandong) Tire Company Co., Ltd. (the Union) regarding CCT that provides, among other matters, that the Union and Chengshan will provide support to return CCT to normal operations. In addition, the CCT Agreement provides Chengshan a limited contractual right to either (i) purchase the Company's equity interest in CCT or (ii) sell its equity interest in CCT to the Company. The uncertainty regarding the ultimate ownership of CCT during the term of the purchase and sale rights set forth in the CCT Agreement could have an adverse impact on our business and our strategic growth plans. In addition, the forced sale of the Company's equity interests in CCT to Chengshan or forced purchase of Chengshan's equity interest in CCT by the Company pursuant to the CCT Agreement could have an adverse impact on the Company's business, strategic growth plans, financial position, cash flows and results of operations.

The Company may fail to successfully develop or implement information technologies or related systems, resulting in a significant competitive disadvantage.

Successfully competing in the highly competitive tire industry can be impacted by the successful development of information technology. If the Company fails to successfully implement information technology systems, it may be at a disadvantage to its competitors resulting in lost sales and negative impacts on the Company's earnings.

The Company also can be at risk of legal action, loss of business or other loss if it fails to protect sensitive data or technology systems that help it to operate.

The Company is implementing an Enterprise Resource Planning (ERP) system that will require significant amounts of capital and human resources to deploy. These requirements may exceed the Company's initial projections. If for any reason this implementation is not successful, the Company could be required to expense rather than capitalize related amounts. Throughout implementation of the system there are also risks created to the Company's ability to successfully and efficiently operate.

The Company's industry is highly competitive, and the Company may not be able to compete effectively with lower-cost producers and larger competitors.

The replacement tire industry is a highly competitive, global industry. Some of the Company's competitors are larger companies with greater financial resources. Most of the Company's competitors have operations in lower-cost countries. Intense competitive activity in the replacement tire industry has caused, and will continue to cause, pressures on the Company's business. The Company's ability to compete successfully will depend in part on its ability to balance capacity with demand, leverage global purchasing of raw materials, make required investments to improve productivity, eliminate redundancies and increase production at low-cost, high-quality supply sources. If the Company is unable to offset continued pressures with improved operating efficiencies, its sales, margins, operating results and market share would decline and the impact could become material on the Company's earnings.

The Company has a risk of exposure to products liability claims which, if successful, could have a negative impact on its financial position, cash flows and results of operations.

The Company's operations expose it to potential liability for personal injury or death as an alleged result of the failure of or conditions in the products that it designs, manufactures and sells. Specifically, the Company is a party to a number of products liability cases in which individuals involved in motor vehicle accidents seek damages resulting from allegedly defective tires that it manufactured. Products liability claims and lawsuits, including possible class action, may result in material losses in the future and cause the Company to incur significant litigation defense costs. The Company is largely self-insured against these claims. These claims could have a negative effect on the Company's financial position, cash flows and results of operations.

The Company's results could be impacted by changes in tariffs imposed by the U.S. or other governments on imported tires.

The Company's ability to competitively source and sell tires can be significantly impacted by changes in tariffs imposed by various governments. Other effects, including impacts on the price of tires, responsive actions from other governments and the opportunity for other competitors to establish a presence in markets where the Company participates could also have significant impacts on the Company's results. In September 2012, a special tariff on light vehicle tires imported from the PRC to the U.S. expired, which has resulted in an increase in imported tires from the PRC which has impacted the Company's sales, market share and profits.

The Company's expenditures for pension and other postretirement obligations could be materially higher than it has predicted if its underlying assumptions prove to be incorrect.

The Company provides defined benefit and hybrid pension plan coverage to union and non-union U.S. employees and a contributory defined benefit plan in the U.K. The Company's pension expense and its required contributions to its pension plans are directly affected by the value of plan assets, the projected and actual rates of return on plan assets and the actuarial assumptions the Company uses to measure its defined benefit pension plan obligations, including the discount rate at which future projected and accumulated pension obligations are discounted to a present value and the inflation rate. The Company could experience increased pension expense due to a combination of factors, including the decreased investment performance of its pension plan assets, decreases in the discount rate and changes in its assumptions relating to the expected return on plan assets. The Company could also experience increased other postretirement expense due to decreases in the discount rate, increases in the health care trend rate and changes in the health care environment.

In the event of declines in the market value of the Company's pension assets or lower discount rates to measure the present value of pension and other postretirement benefit obligations, the Company could experience changes to its Consolidated Balance Sheet or significant cash requirements.

Compliance with regulatory initiatives could increase the cost of operating the Company's business.

The Company is subject to federal, state, local and foreign laws and regulations. Compliance with those laws now in effect, or that may be enacted, could require significant capital expenditures, increase the Company's production costs and affect its earnings and results of operations.

Several countries have or may implement labeling requirements for tires. This legislation could cause the Company's products to be at a disadvantage in the marketplace resulting in a loss of market share or could otherwise impact the Company's ability to distribute and sell its tires.

In addition, while the Company believes that its tires are free from design and manufacturing defects, it is possible that a recall of the Company's tires could occur in the future. A recall could harm the Company's reputation, operating results and financial position.

The Company is also subject to legislation governing labor occupational safety and health both in the U.S. and other countries. The related legislation can change over time making it more expensive for the Company to produce its products. The Company could also, despite its best efforts to comply with these laws, be found liable and be subject to additional costs because of this legislation.

The Company has a risk due to volatility of the capital and financial markets.

The Company periodically requires access to the capital and financial markets as a significant source of liquidity for maturing debt payments or working capital needs that it cannot satisfy by cash on hand or operating cash flows. Substantial volatility in world capital markets and the banking industry may make it difficult for the Company to access credit markets and to obtain financing or refinancing, as the case may be, on satisfactory terms or at all. In addition, various additional factors, including a deterioration of the Company's credit ratings or its business or financial condition, could further impair its access to the capital markets. Additionally, any inability to access the capital markets, including the ability to refinance existing debt when due, could require the Company to defer critical capital expenditures, reduce or not pay dividends, reduce spending in areas of strategic importance, sell important assets or, in extreme cases, seek protection from creditors. See also related comments under "There are risks associated with the Company's global strategy of using joint ventures and partially owned subsidiaries."

The Company's operations in the PRC have been financed in part using multiple loans from several lenders to finance facility construction, expansions and working capital needs. These loans are generally for terms of three years or less. Therefore, debt maturities occur frequently and access to the capital markets is crucial to their ability to maintain sufficient liquidity to support their operations.

The Company conducts its manufacturing, sales and distribution operations on a worldwide basis and is subject to risks associated with doing business outside the U.S.

The Company has affiliate, subsidiary and joint venture operations worldwide, including in the U.S., the U.K., Europe, Mexico and the PRC. The Company has two manufacturing entities, the Cooper Chengshan joint venture and Cooper Kunshan, in the PRC and has continued to expand operations in that country. The Company also is the majority owner of COOCSA, a manufacturing entity in Mexico, and has established an operation in Serbia. There are a number of risks in doing business abroad, including political and economic uncertainty, social unrest, sudden changes in laws and regulations, shortages of trained labor and the uncertainties associated with entering into joint ventures or similar arrangements in foreign countries. These risks may impact the Company's ability to expand its operations in different regions and otherwise achieve its objectives relating to its foreign operations, including utilizing these locations as suppliers to other markets. In addition, compliance with multiple and potentially conflicting foreign laws and regulations, import and export limitations and exchange controls is burdensome and expensive. The Company's foreign operations also subject it to the risks of international terrorism and hostilities and to foreign currency risks, including exchange rate fluctuations and limits on the repatriation of funds.

If the Company fails to develop technologies, processes or products needed to support consumer demand it may lose significant market share or be unable to recover associated costs.

The Company's ability to sell tires may be significantly impacted if it does not develop or make available technologies, processes, or products that competitors may be developing and consumers demanding. This includes but is not limited to changes in the design of and materials used to manufacture tires.

Technologies may also be developed by competitors that better distribute tires to consumers, which could affect the Company's customers.

Additionally, developing new products and technologies requires significant investment and capital expenditures, is technologically challenging and requires extensive testing and accurate anticipation of technological and market trends. If the Company fails to develop new products that are appealing to its customers, or fails to develop products on time and within budgeted amounts, the Company may be unable to recover its product development and testing costs. If the Company cannot successfully use new production or equipment methodologies it invests in, it may also not be able to recover those costs.

Any interruption in the Company's skilled workforce, including labor disruptions, could impair its operations and harm its earnings and results of operations.

The Company's operations depend on maintaining a skilled workforce and any interruption of its workforce due to shortages of skilled technical, production or professional workers, work disruptions, or other events could interrupt the Company's operations and affect its operating results. Further, a significant number of the Company's employees are currently represented by unions. If the Company is unable to resolve labor disputes or if there are work stoppages or other work disruptions, the Company's business and operating results could suffer. See also related comments under "The Company is facing risks related to the impact of labor disruptions and changes in the Company's relationship with, or ownership interests in, its Cooper Chengshan (Shandong) Tire Company Ltd. joint venture."

If the Company is unable to attract and retain key personnel, its business could be materially adversely affected.

The Company's business depends on the continued service of key members of its management. The loss of the services of a significant number of members of its management team could have a material adverse effect on its business. The Company's future success will also depend on its ability to attract, retain and develop highly skilled personnel, such as engineering, marketing and senior management professionals. Competition for these employees is intense, especially in the PRC, and the Company could experience difficulty from time to time in hiring and retaining the personnel necessary to support its business. If the Company does not succeed in retaining its current employees and attracting new high-quality employees, its business could be materially adversely affected.

If assumptions used in developing the Company's strategic plan are inaccurate or the Company is unable to execute its strategic plan effectively, its profitability and financial position could be negatively impacted.

If the assumptions used in developing the Company's strategic plan vary significantly from actual conditions, the Company's sales, margins and profitability could be harmed. If the Company is unsuccessful in implementing the tactics necessary to execute its strategic plan it can also be negatively impacted.

The Company may not be successful in executing and integrating acquisitions into its operations, which could harm its results of operations and financial condition.

The Company routinely evaluates potential acquisitions and may pursue acquisition opportunities, some of which could be material to its business. The Company cannot provide assurance whether it will be successful in pursuing any acquisition opportunities or what the consequences of any acquisition would be. The Company may encounter various risks in any acquisitions, including:

the possible inability to integrate an acquired business into its operations;

diversion of management's attention;

loss of key management personnel;

unanticipated problems or liabilities; and

increased labor and regulatory compliance costs of acquired businesses.

Some or all of those risks could impair the Company's results of operations and impact its financial condition. The Company may finance any future acquisitions from internally generated funds, bank borrowings, public offerings or private placements of equity or debt securities, or a combination of the foregoing. Acquisitions may involve the expenditure of significant funds and management time.

Acquisitions may also require the Company to increase its borrowings under its bank credit facilities or other debt instruments, or to seek new sources of liquidity. Increased borrowings would correspondingly increase the Company's financial leverage, and could result in lower credit ratings and increased future borrowing costs. These risks could also reduce the Company's flexibility to respond to changes in its industry or in general economic conditions.

There are risks associated with the Company's global strategy which includes using joint ventures and partially-owned subsidiaries.

The Company's strategy includes the use of joint ventures and other partially-owned subsidiaries. These entities operate in countries outside of the U.S., are generally less well capitalized than the Company and bear risks similar to the risks of the Company. In addition, there are specific risks applicable to these subsidiaries and these risks, in turn, add potential risks to the Company. Such risks include greater risk of joint venture partners or other investors failing to meet their obligations under related shareholders' agreements; conflicts with joint venture partners; the possibility of a joint venture partner taking valuable knowledge from the Company; and risk of being denied access to the capital markets, which could lead to resource demands on the Company in order to maintain or advance its strategy. The Company's outstanding notes and primary credit facility contain cross default provisions in the event of certain defaults by the Company under other agreements with third parties. For further discussion of access to the capital markets, see also related comments under "The Company has a risk due to volatility of the capital and financial markets."

If the price of energy sources increases, the Company's operating expenses could increase significantly or the demand for the Company's products could be affected.

The Company's manufacturing facilities rely principally on natural gas, as well as electrical power and other energy sources. High demand and limited availability of natural gas and other energy sources can result in significant increases in energy costs increasing the Company's operating expenses and transportation costs. Higher energy costs would increase the Company's production costs and adversely affect its margins and results of operations. If the Company is unable to obtain adequate sources of energy, its operations could be interrupted.

In addition, if the price of gasoline increases significantly for consumers, it can affect driving and purchasing habits and impact demand for tires.

The Company is required to comply with environmental laws and regulations that could cause it to incur significant costs.

The Company's manufacturing facilities are subject to numerous federal, state, local and foreign laws and regulations designed to protect the environment, and the Company expects that additional requirements with respect to environmental matters will be imposed on it in the future. In addition, the Company has contractual indemnification obligations for environmental remediation costs and liabilities that may arise relating to certain divested operations. Material future expenditures may be necessary if compliance standards change, if material unknown conditions that require remediation are discovered, or if required remediation of known conditions becomes more extensive than expected. If the Company fails to comply with present and future environmental laws and regulations, it could be subject to future liabilities or the suspension of production, which could harm its business or results of operations. Environmental laws could also restrict the Company's ability to expand its facilities or could require it to acquire costly equipment or to incur other significant expenses in connection with its manufacturing processes.

The Company may not be able to protect its intellectual property rights adequately.

The Company's success depends in part upon its ability to use and protect its proprietary technology and other intellectual property, which generally covers various aspects in the design and manufacture of its products and processes. The Company owns and uses tradenames and trademarks worldwide. The Company relies upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements and patent, copyright and trademark laws to protect its intellectual property rights. The steps the Company takes in this regard may not be adequate to prevent or deter challenges, reverse engineering or infringement or other violations of its intellectual property, and the Company may not be able to detect unauthorized use or take appropriate and timely steps to enforce its intellectual property rights. In addition, the laws of some countries may not protect and enforce the Company's intellectual property rights to the same extent as the laws of the U.S. Further, while we believe that we have rights to use all intellectual property in the Company's use, if the Company is found to infringe on the rights of others it could be adversely impacted.

The Company is facing risks relating to enactment of healthcare legislation .

The Company is facing risks emanating from the enactment of legislation by the U.S. government including the *Patient Protection and Affordable Care Act* and the related *Healthcare and Education Reconciliation Act*, which are collectively referred to as healthcare legislation. This major legislation is being implemented over a period of several years and the ultimate cost and the potentially adverse impact to the Company and its employees cannot be quantified at this time.

The impact of proposed new accounting standards may have a negative impact on the Company's financial statements.

The Financial Accounting Standards Board is considering several projects which may result in the modification of accounting standards affecting the Company, including standards relating to revenue recognition, financial instruments, leasing, and others. Any such changes could have a negative impact on the Company's financial statements.

The realizability of deferred tax assets may affect the Company's profitability and cash flows.

The Company has significant net deferred tax assets recorded on the balance sheet and determines at each reporting period whether or not a valuation allowance is necessary based upon the expected realizability of such deferred tax assets. In the U.S., the Company has recorded deferred tax assets, the largest of which relate to products liability, pension and other postretirement benefit obligations, partially offset by deferred tax liabilities, the most significant of which relates to accelerated depreciation. The Company's non-U.S. deferred tax assets relate to pension, accrued expenses and net operating losses, and are partially offset by deferred tax liabilities related to accelerated depreciation. Based upon the Company's assessment of the realizability of its net deferred tax assets, the Company maintains a small valuation allowance for the portion of its U.S. deferred tax assets primarily associated with a capital loss carryforward. In addition, the Company has recorded valuation allowances for deferred tax assets primarily associated with non-U.S. net operating losses. The Company's assessment of the realizability of deferred tax assets is based on certain assumptions regarding future profitability, and potentially adverse business conditions that could have a negative impact on the realizability and therefore impact the Company's operating results or financial position.

Item 6. EXHIBITS

(a) Exhibits

- (31.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (31.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32) Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (101.INS) XBRL Instance Document
- (101.SCH) XBRL Taxonomy Extension Schema Document
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase Document
- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document
- (101.LAB) XBRL Taxonomy Extension Label Linkbase Document
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COOPER TIRE & RUBBER COMPANY

/s/ B. E. Hughes
B. E. Hughes
Vice President, Chief Financial Officer
And Treasurer
(Principal Financial Officer)

/s/ R. W. Huber
R. W. Huber
Director of External Reporting
(Principal Accounting Officer)

February 28, 2014

(Date)