

COOPER TIRE & RUBBER CO
Form 10-Q
October 31, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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)

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company 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 as of October 26, 2016: 53,468,977

Part I. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS****COOPER TIRE & RUBBER COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(UNAUDITED)

(Dollar amounts in thousands except per-share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	\$ 750,913	\$ 782,368	\$ 2,140,982	\$ 2,197,355
Cost of products sold	597,961	628,414	1,657,932	1,751,754
Gross profit	152,952	153,954	483,050	445,601
Selling, general and administrative expense	63,262	71,787	192,339	193,652
Pension settlement charge	11,462		11,462	
Operating profit	78,228	82,167	279,249	251,949
Interest expense	(6,795)	(5,889)	(19,717)	(18,485)
Interest income	1,018	533	2,907	1,609
Other non-operating income	1,785	1,362	4,672	3,034
Income before income taxes	74,236	78,173	267,111	238,107
Provision for income taxes	23,757	24,524	86,509	81,818
Net income	50,479	53,649	180,602	156,289
Net income attributable to noncontrolling shareholder interests	1,176	473	1,545	2,769
Net income attributable to Cooper Tire & Rubber Company	\$ 49,303	\$ 53,176	\$ 179,057	\$ 153,520
Basic earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.91	\$ 0.94	\$ 3.26	\$ 2.68
Diluted earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.90	\$ 0.93	\$ 3.23	\$ 2.65
Dividends per share	\$ 0.105	\$ 0.105	\$ 0.315	\$ 0.315

See accompanying notes to Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Dollar amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 50,479	\$ 53,649	\$ 180,602	\$ 156,289
Other comprehensive income (loss)				
Foreign currency translation adjustments	(10,946)	(22,506)	(36,137)	(26,072)
Financial instruments				
Change in the fair value of derivatives	1,173	1,360	(4,578)	(684)
Income tax (provision) benefit on derivative instruments	(420)	(505)	1,743	327
Financial instruments, net of tax	753	855	(2,835)	(357)
Postretirement benefit plans				
Amortization of actuarial loss	10,820	11,708	32,690	35,066
Amortization of prior service credit	(141)	(141)	(424)	(425)
Actuarial loss	(26,494)		(26,494)	
Pension settlement charge	11,462		11,462	
Income tax benefit (provision) on postretirement benefit plans	6,314	(4,108)	(1,366)	(12,313)
Foreign currency translation effect	2,513	3,934	9,748	2,943
Postretirement benefit plans, net of tax	4,474	11,393	25,616	25,271
Other comprehensive income (loss)	(5,719)	(10,258)	(13,356)	(1,158)
Comprehensive income	44,760	43,391	167,246	155,131
Less: comprehensive loss attributable to noncontrolling shareholder interests	(144)	(1,904)	(1,571)	(1,261)
Comprehensive income attributable to Cooper Tire & Rubber Company	\$ 44,904	\$ 45,295	\$ 168,817	\$ 156,392

See accompanying notes to Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands except per-share amounts)

	Sept. 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 450,348	\$ 505,157
Notes receivable	5,947	8,750
Accounts receivable, less allowances of \$7,676 at 2016 and \$7,533 at 2015	434,580	371,757
Inventories at lower of cost or market:		
Finished goods	371,140	297,967
Work in process	27,235	26,666
Raw materials and supplies	97,720	87,928
	496,095	412,561
Other current assets	44,797	36,405
Total current assets	1,431,767	1,334,630
Property, plant and equipment:		
Land and land improvements	48,535	49,782
Buildings	281,082	277,034
Machinery and equipment	1,682,052	1,637,637
Molds, cores and rings	222,466	236,370
	2,234,135	2,200,823
Less: accumulated depreciation	1,421,844	1,405,625
Net property, plant and equipment	812,291	795,198
Goodwill	18,851	18,851
Intangibles, net of accumulated amortization of \$72,754 at 2016 and \$62,274 at 2015	132,380	133,490
Restricted cash	1,014	802
Deferred income tax assets	133,990	136,310
Other assets	15,575	16,895
Total assets	\$ 2,545,868	\$ 2,436,176
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	\$ 12,222	\$ 12,437
Accounts payable	225,662	215,850
Accrued liabilities	221,258	199,368
Income taxes payable	10,973	4,748

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Current portion of long-term debt	600	600
Total current liabilities	470,715	433,003
Long-term debt	295,874	296,412
Postretirement benefits other than pensions	251,219	249,650
Pension benefits	284,223	304,621
Other long-term liabilities	145,048	132,594
Deferred income tax liabilities	2,049	2,285
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	23,900	16,306
Retained earnings	2,257,686	2,095,923
Accumulated other comprehensive loss	(520,007)	(509,767)
	1,849,429	1,690,312
Less: common shares in treasury at cost (34,185,177 at 2016 and 32,017,754 at 2015)	(788,677)	(711,064)
Total parent stockholders' equity	1,060,752	979,248
Noncontrolling shareholder interest in consolidated subsidiary	35,988	38,363
Total equity	1,096,740	1,017,611
Total liabilities and equity	\$ 2,545,868	\$ 2,436,176

See accompanying notes to Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollar amounts in thousands)

	Nine Months Ended September 30,	
	2016	2015
Operating activities:		
Net income	\$ 180,602	\$ 156,289
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96,928	90,588
Stock-based compensation	11,800	11,710
Change in LIFO inventory reserve	(3,426)	(45,132)
Amortization of unrecognized postretirement benefits	32,266	34,641
Pension settlement charge	11,462	
Changes in operating assets and liabilities:		
Accounts and notes receivable	(67,940)	(66,628)
Inventories	(89,877)	(5,762)
Other current assets	(13,788)	(19,193)
Accounts payable	13,370	(24,849)
Accrued liabilities	19,008	45,489
Other items	(13,725)	(43,911)
Net cash provided by operating activities	176,680	133,242
Investing activities:		
Additions to property, plant and equipment and capitalized software	(126,921)	(128,601)
Proceeds from the sale of assets	331	1,555
Net cash used in investing activities	(126,590)	(127,046)
Financing activities:		
Net payments on short-term debt	(645)	(39,131)
Repayments of long-term debt	(600)	(3,125)
Payment of financing fees		(2,586)
Repurchase of common stock	(82,486)	(82,800)
Payment of dividends to noncontrolling shareholder	(804)	(917)
Payment of dividends to Cooper Tire & Rubber Company stockholders	(17,242)	(17,998)
Issuance of common shares and excess tax benefits on stock options	3,710	19,665
Net cash used in financing activities	(98,067)	(126,892)
Effects of exchange rate changes on cash	(6,832)	(6,724)
Net change in cash and cash equivalents	(54,809)	(127,420)