

COOPER TIRE & RUBBER CO  
Form 10-Q  
May 02, 2014

**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 March 31, 2014**

**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

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 April 30, 2014: 63,475,820

## Part I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## COOPER TIRE &amp; RUBBER COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands except per-share amounts)

	December 31, 2013	March 31, 2014 (Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 397,731	\$ 335,944
Notes receivable	86,965	78,628
Accounts receivable, less allowances of \$16,996 at 2013 and \$15,514 at 2014	360,405	461,648
Inventories at lower of cost or market:		
Finished goods	360,686	449,134
Work in process	35,576	42,075
Raw materials and supplies	120,913	130,779
	517,175	621,988
Other current assets	92,514	91,189
Total current assets	1,454,790	1,589,397
Property, plant and equipment:		
Land and land improvements	51,186	51,162
Buildings	326,635	329,017
Machinery and equipment	1,847,576	1,867,271
Molds, cores and rings	246,760	243,653
	2,472,157	2,491,103
Less accumulated depreciation and amortization	1,497,888	1,516,220
Net property, plant and equipment	974,269	974,883
Goodwill	18,851	18,851
Intangibles, net of accumulated amortization of \$63,354 at 2013 and \$66,113 at 2014	160,308	156,712
Restricted cash	2,759	1,169
Deferred income taxes	111,644	107,367
Other assets	15,526	15,559
Total assets	\$ 2,738,147	\$ 2,863,938

**LIABILITIES AND EQUITY**

Current liabilities:

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Notes payable	\$ 22,105	\$ 25,001
Accounts payable	302,422	359,230
Accrued liabilities	211,090	230,341
Income taxes	11,098	15,348
Current portion of long-term debt	17,868	19,419
Total current liabilities	564,583	649,339
Long-term debt	320,959	327,755
Postretirement benefits other than pensions	238,653	239,337
Pension benefits	291,808	285,466
Other long-term liabilities	157,918	149,729
Deferred income tax liabilities	6,601	6,463
Redeemable noncontrolling shareholder interest		155,554
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	4,433	
Retained earnings	1,741,611	1,755,903
Cumulative other comprehensive loss	(410,020)	(406,488)
	1,423,874	1,437,265
Less: common shares in treasury at cost (24,464,264 at 2013 and 24,393,034 at 2014)	(433,008)	(431,574)
Total parent stockholders' equity	990,866	1,005,691
Noncontrolling shareholder interest in consolidated subsidiary	166,759	44,604
Total equity	1,157,625	1,050,295
Total liabilities and equity	\$ 2,738,147	\$ 2,863,938

See accompanying notes.

COOPER TIRE & RUBBER COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

(Dollar amounts in thousands except per-share amounts)

	Three months ended March 31,	
	2013	2014
Net sales	\$ 861,681	\$ 796,458
Cost of products sold	703,763	649,116
Gross profit	157,918	147,342
Selling, general and administrative	61,254	66,431
Operating profit	96,664	80,911
Interest expense	(7,101)	(7,118)
Interest income	296	513
Other income (expense)	595	(11)
Income before income taxes	90,454	74,295
Income tax expense	27,617	22,567
Net income	62,837	51,728
Net income attributable to noncontrolling shareholders interests	6,757	6,294
Net income attributable to Cooper Tire & Rubber Company	\$ 56,080	\$ 45,434
Basic earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.89	\$ 0.72
Diluted earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.87	\$ 0.71
Dividends per share	\$ 0.105	\$ 0.105

See accompanying notes.

## COOPER TIRE &amp; RUBBER COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Dollar amounts in thousands)

	Three Months Ended March 31,	
	2013	2014
Net income	\$ 62,837	\$ 51,728
Other comprehensive income		
Cumulative currency translation adjustments		
Foreign currency translation adjustments	(6,179)	(3,937)
Cumulative currency translation adjustments	(6,179)	(3,937)
Financial instruments		
Change in the fair value of derivatives and marketable securities	2,527	1,542
Income tax benefit on derivative instruments	(1,139)	(613)
Financial instruments, net of tax	1,388	929
Postretirement benefit plans		
Amortization of actuarial loss	12,479	9,127
Amortization of prior service credit	(142)	(142)
Income tax provision on postretirement benefit plans	(4,589)	(3,113)
Foreign currency translation effect	6,175	(512)
Postretirement benefit plans, net of tax	13,923	5,360
Other comprehensive income	9,132	2,352
Comprehensive income	71,969	54,080
Less comprehensive income attributable to noncontrolling shareholders interests	8,560	5,114
Comprehensive income attributable to Cooper Tire & Rubber Company	\$ 63,409	\$ 48,966

See accompanying notes.

## COOPER TIRE &amp; RUBBER COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollar amounts in thousands)

	Three Months ended March 31,	
	2013	2014
<b>Operating activities:</b>		
Net income	\$ 62,837	\$ 51,728
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	32,121	34,885
Deferred income taxes	787	1,584
Stock based compensation	1,818	1,436
Change in LIFO inventory reserve	(12,978)	(31,579)
Amortization of unrecognized postretirement benefits	12,337	8,985
Changes in operating assets and liabilities:		
Accounts and notes receivable	(55,784)	(96,004)
Inventories	(85,244)	(74,266)
Other current assets	(1,374)	(5,850)
Accounts payable	(24,550)	57,921
Accrued liabilities	18,615	16,059
Other items	17,384	7,549
Net cash used in operating activities	(34,031)	(27,552)
<b>Investing activities:</b>		
Additions to property, plant and equipment and capitalized software	(49,347)	(39,772)
Proceeds from the sale of assets		100
Net cash used in investing activities	(49,347)	(39,672)
<b>Financing activities:</b>		
Net issuances of short-term debt	2,360	3,622
Additions to long-term debt	12,973	13,034
Repayments of long-term debt	(451)	(4,687)
Payment of dividends	(6,645)	(6,656)
Issuance of common shares and excess tax benefits on options	1,070	131
Net cash provided by financing activities	9,307	5,444
Effects of exchange rate changes on cash	(5,574)	(7)
Changes in cash and cash equivalents	(79,645)	(61,787)
Cash and cash equivalents at beginning of year	351,817	397,731
Cash and cash equivalents at end of period	\$ 272,172	\$ 335,944

See accompanying notes.





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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 three-month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014.

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.

*Accounting Pronouncements Recently Adopted*

**Income Taxes** In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which clarifies treatment of unrecognized tax benefits based on surrounding circumstances. The amendments in this update are effective for annual and interim periods beginning on or after December 15, 2013. Although the Company does not expect the adoption of ASU 2013-11 to have a material effect on its consolidated financial statements, it will modify presentation of its unrecognized tax benefit if the specific circumstances are met. The adoption of this accounting standards update did not have an impact on the Company's consolidated financial statements.

**2. CCT Agreement**

On January 29, 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 Cooper Chengshan (Shandong) Tire Company Ltd. (*CCT*) that, among other matters, provides Chengshan, with certain conditions and exceptions, a limited contractual right to either (i) purchase the Company's 65 percent equity interest in CCT for 65 percent of the Option Price (as defined below) or (ii) sell its 35 percent equity interest in CCT to the Company for 35 percent of the Option Price. 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 35 percent equity interest in CCT for 35 percent of the Option Price subject to certain conditions. 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.

The Option Price under the CCT Agreement is defined as the greater of (i) the fair market value of CCT on a stand-alone basis, which value will not take into consideration the value of the trademarks and technologies licensed by the Company to CCT, as determined by an internationally recognized valuation firm (the CCT valuation ) and (ii) \$435,000.

Under the terms of the CCT Agreement, once the Option Price is determined, the noncontrolling shareholder has 45 days to either purchase the Company's 65 percent ownership interest in CCT for 65 percent of the Option Price or sell to the Company its 35 percent ownership interest in CCT at 35 percent of the Option Price or do neither. If the noncontrolling shareholder does not exercise these options, the options shall expire and the Company shall have the right to purchase the noncontrolling shareholder's 35 percent ownership interest in CCT at 35 percent of the Option Price. If the Company does not exercise this option within 90 days of the determination of the Option Price, the option shall lapse. If the CCT valuation is not provided on or before August 11, 2014, the above options of both parties will terminate and be of no effect unless the Company, at its sole discretion, elects to extend this deadline for the CCT valuation.

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.

The Company has determined the CCT Agreement constitutes an accounting extinguishment of the Chengshan Group's equity interest in CCT. In accordance with Accounting Standard Codification (ASC) 810, Consolidation, changes in a parent's interest while the parent retains its controlling financial interest in its subsidiary shall be accounted for as equity transactions. Therefore, gains and losses are not recorded in the Condensed Consolidated Statement of Income as a result of the CCT Agreement. The Company is required to measure the noncontrolling shareholder interest at fair value as of January 29, 2014, the transaction date (the Transaction Date Assessment).

The measurement of the noncontrolling shareholder interest as of the transaction date is determined by assessing CCT as an ongoing component of the Company's operations. The Transaction Date Assessment is not meant to be representative of the fair market value of CCT as a stand-alone entity as defined by the CCT Agreement. Further, the Transaction Date Assessment also considers specific discounts attributable to a noncontrolling shareholder interest, including discounts for lack of control of the entity and lack of marketability. Any adjustment to the noncontrolling shareholder interest as a result of the Transaction Date Assessment is offset by a reduction to Capital in excess of par value, to the extent available, with any remaining amount treated as a reduction in Retained earnings.

In addition, because the CCT Agreement provides put and call options to the noncontrolling shareholder interest owner, these options should be measured at fair value (the Options Assessment). Adjustments to the carrying value of the noncontrolling shareholder interest as a result of the Options Assessment will be treated like a dividend to the noncontrolling shareholder interest owner. Any adjustment to the noncontrolling shareholder interest as a result of the Options Assessment is offset by a reduction to Retained earnings and reflected in the computation of earnings per share available to the Company's common stockholders.

Further, as a result of the CCT Agreement, during the term of its put option rights, the noncontrolling shareholder interest in CCT has redemption features that are not within the control of the Company. Accordingly, the noncontrolling shareholder interest in CCT is recorded outside of total equity. If the Transaction Date Assessment and Options Assessment result in a noncontrolling shareholder interest that is less than 35 percent of the minimum Option Price, ASC 480, Distinguishing Liabilities from Equity, requires that the noncontrolling shareholder interest be adjusted to 35 percent of the minimum Option Price.

The Company's Transaction Date Assessment, in accordance with the appropriate accounting guidance, resulted in an adjustment to the noncontrolling shareholder interest of \$28,285, increasing the total noncontrolling shareholder

interest to \$152,250. The Options Assessment did not result in any further

adjustment to the noncontrolling shareholder interest. The redeemable noncontrolling shareholder interest is classified outside of permanent equity on the Company's Condensed Consolidated Balance Sheets, in accordance with the authoritative accounting guidance.

The Company has determined that the nonrecurring fair value measurements related to CCT rely primarily on Company-specific inputs and the Company's assumptions about the use of the assets and settlements of liabilities, as observable inputs are not available and, as such, reside within Level 3 of the fair value hierarchy as defined in Footnote 4. The Company utilized a third party to assist in the determination of the Transaction Date Assessment and Options Assessment and these were determined based upon internal and external inputs considering various relevant market transactions, discounted cash flow valuation methods, assessing appropriate discounts for lack of control and marketability, and probability weighting, among other factors.

### 3. Earnings Per Share

Net income per share is computed on the basis of the weighted average number of common shares outstanding each year. 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 March 31,	
	2013	2014
<b>Numerator</b>		
Numerator for basic and diluted earnings per share - Net income attributable to common stockholders	\$ 56,080	\$ 45,434
<b>Denominator</b>		
Denominator for basic earnings per share - weighted average shares outstanding	63,226	63,399
Effect of dilutive securities - stock options and other stock units	958	939
Denominator for diluted earnings per share - adjusted weighted average share outstanding	64,184	64,338
<b>Basic earnings per share:</b>		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.89	\$ 0.72
<b>Diluted earnings per share:</b>		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.87	\$ 0.71

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 none and 340,841 in 2013 and 2014, respectively. These options could be dilutive in the future depending on the performance of the Company's stock.

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 merger agreement with subsidiaries of Apollo Tyres Ltd. in 2013 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 deposited 1,906,183 of common shares with the trustee in connection with this funding during the third quarter of 2013. While these shares were in the trust, they were treated as treasury shares in prior financial statements and in accordance with Accounting Standards Codification 260, Earnings Per Share, were not included in the earnings per share calculations. With the termination of the merger agreement, these shares have been removed from the trust and returned to treasury shares during the first quarter of 2014.

#### **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, 2013 and March 31, 2014 was \$148,036 and \$143,758, 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 Condensed Consolidated Statements of Income 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 \$398 and \$1,940 as of December 31, 2013 and March 31, 2014, respectively) are recorded as a separate component of stockholders' equity in the accompanying Condensed 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 Income 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 Company enters into various derivative contracts with financial institutions under master netting arrangements which include a right to offset. The following table presents the fair value of the gross position of the derivative contracts, the amount offset under the master netting arrangements and the net amounts and the location of those amounts in the Condensed Consolidated Balance Sheets.

(Assets)/liabilities	December 31, 2013		March 31, 2014	
Designated as hedging instruments:				
Gross amounts recognized		\$ 2,702		\$ 3,721
Gross amounts offset		(2,232)		(1,636)
Net amounts		\$ 470		\$ 2,085
Not designated as hedging instruments:				
Gross amounts recognized		\$ (121)		\$ (253)
Gross amounts offset				
Net amounts		\$ (121)		\$ (253)
Net amounts presented	Other current assets	\$ 349	Other current assets	\$ 1,832

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

Derivatives	Amount of Gain (Loss)		
	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion)	Reclassified from Cumulative Loss into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)
Designated as Cash Flow Hedges			
Three Months Ended March 31, 2013	\$ 2,032	\$ (495)	\$ 56
Three Months Ended March 31, 2014	\$ 2,441	\$ 899	\$ 72

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 2013	2014
Foreign exchange contracts	Other income	\$ (503)	\$ (132)

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.
- 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, 2013 and March 31, 2014, 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 following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

	December 31, 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	\$ 349	\$	\$ 349	\$
Stock-based Liabilities	\$ (12,462)	\$ (12,462)	\$	\$
	March 31, 2014			
	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	\$ 1,832	\$	\$ 1,832	\$
Stock-based Liabilities	\$ (12,701)	\$ (12,701)	\$	\$
Redeemable noncontrolling shareholder interest (see Footnote 2 - CCT Agreement)	\$ (152,250)	\$	\$	\$ (152,250)

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:

	Carrying Amount	December 31, 2013 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	\$ 397,731	\$ 397,731	\$	\$
Notes receivable	86,965	86,965		
Restricted cash	2,759	2,759		
Notes payable	(22,105)	(22,105)		
Current portion of long-term debt	(17,868)	(17,868)		
Long-term debt	(320,959)	(334,759)		

	Carrying Amount	March 31, 2014 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	\$ 335,944	\$ 335,944	\$	\$
Notes receivable	78,628	78,628		
Restricted cash	1,169	1,169		
Notes payable	(25,001)	(25,001)		
Current portion of long-term debt	(19,419)	(19,419)		
Long-term debt	(327,755)	(334,855)		

**5. Business Segments**

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

	Three months ended March 31,	
	2013	2014
<b>Revenues:</b>		
North American Tire		
External customers	\$ 586,876	\$ 543,960
Intercompany	15,398	19,534
	602,274	563,494
International Tire		
External customers	274,804	252,498
Intercompany	66,227	57,448
	341,031	309,946
Eliminations	(81,624)	(76,982)
Net sales	\$ 861,681	\$ 796,458
<b>Segment profit (loss):</b>		
North American Tire	\$ 71,406	\$ 68,629
International Tire	30,010	23,148
Eliminations	1,047	382
Unallocated corporate charges	(5,799)	(11,248)
Operating profit	96,664	80,911
Interest expense	(7,101)	(7,118)
Interest income	296	513
Other income (expense)	595	(11)
Income before income taxes	\$ 90,454	\$ 74,295

**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 \$432,906 and \$492,890 at December 31, 2013 and March 31, 2014, respectively. These FIFO values have been reduced by approximately \$161,436 and \$129,857 at December 31, 2013 and March 31, 2014, 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 based 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.

The following table discloses the amount of stock-based compensation expense for the three-month period ended March 31, 2013 and 2014:

	Three months ended March 31,	
	2013	2014
Stock options	\$ 971	\$ <b>1,014</b>
Restricted stock units	279	<b>156</b>
Performance based units	568	<b>266</b>
Total stock based compensation	\$ 1,818	\$ <b>1,436</b>

### *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. In February 2014, executives participating in the 2014-2016 Long-Term Incentive Plan were granted 380,062 stock options which will vest one third each year through February 2017. 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:

	2013	2014
Risk-free interest rate	1.17%	<b>2.00%</b>
Dividend yield	1.7%	<b>1.8%</b>
Expected volatility of the Company's common stock	0.646	<b>0.640</b>
Expected life in years	6.0	<b>6.0</b>

The weighted average fair value of options granted in 2013 and 2014 was \$12.97 and \$12.26, respectively.

The following table provides details of the stock option activity for the three months ended March 31, 2014:

	<b>Number of Shares</b>
Outstanding at January 1, 2014	1,710,244
Granted	380,064
Exercised	(6,776)
Expired	(53,000)
Cancelled	(4,015)
Outstanding at March 31, 2014	2,026,517
<i>Exercisable</i>	<i>1,233,982</i>

*Restricted Stock Units (RSUs)*

The following table provides details of the nonvested RSU activity for the three months ended March 31, 2014:

	<b>Number of Restricted Units</b>
Nonvested at January 1, 2014	60,686
Vested	(18,658)
Accrued dividend equivalents	272
Nonvested at March 31, 2014	42,300

*Performance Stock Units (PSUs)*

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, 2013 and 2014 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 and 2014 will vest at December 31, 2015.

Executives participating in the Company's Long-Term Incentive Plan for the plan year 2014-2016, earn PSUs and cash. Any units and cash earned during 2014 will vest at December 31, 2016.

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

Performance stock units outstanding at January 1, 2014	156,772
Cancelled	(1,118)
Accrued dividend equivalents	723
Performance stock units outstanding at March 31, 2014	156,377

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 table discloses the amount of net periodic benefit costs for the three months ended March 31, 2013 and 2014 for the Company's defined benefit plans and other postretirement benefits:

	Pension Benefits - Domestic		Pension Benefits - International	
	2013	2014	2013	2014
Components of net periodic benefit cost:				
Service cost	\$ 2,970	\$ 2,440	\$ 3	\$ 3
Interest cost	9,657	10,711	3,886	4,926
Expected return on plan assets	(11,889)	(13,135)	(3,718)	(5,015)
Amortization of actuarial loss	11,086	7,005	914	2,122
Net periodic benefit cost	\$ 11,824	\$ 7,021	\$ 1,085	\$ 2,036

	Other Post Retirement Benefits	
	2013	2014
Components of net periodic benefit cost:		
Service cost	\$ 953	\$ 601
Interest cost	2,698	2,826
Amortization of prior service cost	(142)	(142)
Amortization of actuarial loss	479	
Net periodic benefit cost	\$ 3,988	\$ 3,285



**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:

	Redeemable Noncontrolling Shareholder Interest	Total Parent Stockholders Equity	Total Equity Noncontrolling Shareholder Interest in Consolidated Subsidiary	Total Stockholders Equity
Balance at December 31, 2013	\$	\$ 990,866	\$ 166,759	\$ 1,157,625
Reclassification of redeemable noncontrolling shareholder interest	152,250	(28,285)	(123,965)	(152,250)
Net income	4,300	45,434	1,994	47,428
Other comprehensive income	(996)	3,532	(184)	3,348
Stock compensation plans		800		800
Cash dividends - \$.105 per share		(6,656)		(6,656)
Balance at March 31, 2014	\$ 155,554	\$ 1,005,691	\$ 44,604	\$ 1,050,295

**10. Changes in Cumulative Other Comprehensive Loss by Component**

The following table presents the changes in Cumulative Other Comprehensive Loss by Component for the period ended March 31, 2014. All amounts are presented net of tax. Amounts in parentheses indicate debits.

	Cumulative Currency Translation Adjustment	Changes in the Fair Value of Derivatives and Unrealized Gains (Losses)	Unrecognized Postretirement Benefit Plans	Total
December 31, 2013	\$ 59,660	\$ 1,615	\$ (471,295)	\$ (410,020)
Other comprehensive income (loss) before reclassifications	(2,757)	1,470(a)	(512)(c)	(1,799)
Amount reclassified from accumulated other comprehensive income		(541)(b)	5,872(d)	5,331
Net current-period other comprehensive income	(2,757)	929	5,360	3,532
March 31, 2014	\$ 56,903	\$ 2,544	\$ (465,935)	\$ (406,488)

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- (a) This amount represents \$2,441 of unrealized gains on cash flow hedges, net of tax of \$971, that were recognized in Other Comprehensive Loss (see Footnote 4 for additional details).
- (b) This amount represents \$899 of gains on cash flow hedges, net of tax of \$358, 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 for additional details).
- (c) This amount represents \$665 of other comprehensive loss, net of tax of \$153 that was recognized in Other Comprehensive Loss.
- (d) This amount represents amortization of prior service credit of \$142 and amortization of actuarial losses of (\$9,127), net of tax of \$3,113, that were reclassified out of Cumulative Other Comprehensive Loss and are included in the computation of net periodic benefit cost (see Footnote 8 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 March 31,	
	2013	2014
Net income attributable to noncontrolling shareholders interests	\$ 6,757	\$ 6,294
Other comprehensive income:		
Currency translation adjustments	1,803	(1,180)
Comprehensive income attributable to noncontrolling shareholders interests	\$ 8,560	\$ 5,114

**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 liability reserves:

	2013	2014
Reserve at January 1	\$ 30,139	\$ 30,853
Additions	5,669	5,906
Payments	(4,128)	(5,115)
Reserve at March 31	\$ 31,680	\$ 31,644

**13. Contingent Liabilities*****Products Liability Claims***

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

disabilities 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 first quarter of 2014, the Company increased its products liability reserve by \$11,927. The addition of another year of self-insured incidents accounted for \$12,331 of this increase. Settlements and changes in the amount of reserves for cases where sufficient information is known to estimate a liability decreased the reserve by \$404.

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 \$15,554 during the first quarter of 2014 to resolve cases and claims. The Company's products liability reserve balance at December 31, 2013 totaled \$189,513 (the current portion of \$70,472 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 March 31, 2014 totaled \$185,886 (current portion of \$70,234).

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 March 31, 2013 and 2014, products liability expenses totaled \$20,697 and \$18,701, respectively. Products liability expenses are included in Cost of goods sold in the Condensed Consolidated Statements of Income.

### ***Certain Litigation Related to the Apollo Merger***

Following the announcement of the proposed acquisition of the Company by wholly owned subsidiaries of Apollo Tyres Ltd. (the Apollo entities) in June 2013, alleged stockholders of the Company filed putative class action lawsuits in state courts in Delaware and Ohio. These lawsuits, captioned *In re Cooper Tire & Rubber Co. Stockholders Litigation*, No. 9658 VCL and *Auld v. Cooper Tire & Rubber Co., et al.*, No. 2013 CV 293, alleged that the directors of the Company breached their fiduciary duties to the Company's stockholders by agreeing to enter into the proposed transaction for an allegedly unfair price and as the result of an allegedly unfair process. The lawsuits sought, among other things, declaratory and injunctive relief. As discussed below, on December 30, 2013, the Company terminated the merger agreement with the Apollo entities. Following the termination of the merger agreement, the plaintiffs voluntarily dismissed the Delaware and Ohio lawsuits in April 2014.

On October 4, 2013, the Company filed a complaint in the Court of Chancery of the State of Delaware, captioned *Cooper Tire Co. v. Apollo (Mauritius) Holdings Pvt. Ltd., et al.*, No. 8980- VCG, asking that the Apollo entities be required to use their reasonable 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. Briefing on that motion is complete. The court has not set a hearing date for that motion.

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated.

An estimate of any such loss cannot be made at this time, as no claims for damages against the Company have been asserted and the outcome of these pending proceedings cannot be predicted with certainty. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations.

### ***Federal Securities Litigation***

On January 17, 2014, alleged stockholders of the Company filed a putative class-action lawsuit against the Company and certain of its officers 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.





The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated.

This case has recently been filed and is at an early stage. As a result, the outcome of these pending proceedings cannot be predicted with certainty and an estimate of any such loss cannot be made at this time. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations.

### ***Stockholder Derivative Litigation***

On February 24, March 6, and April 17, 2014, purported stockholders of the Company filed derivative actions on behalf of the Company in the U.S. District Court for the Northern District of Ohio and the U.S. District Court for the District of Delaware against certain current officers and employees and the current members of the Company's board of directors. The Company is named as a nominal defendant in the lawsuits, and the lawsuits seek recovery for the benefit of the Company. The lawsuits, captioned *Bui v. Armes, et al.*, No. 3:14-cv-00428 (N.D. Ohio), *Zwang v. Armes, et al.*, No. 3:14-cv-00511 (N.D. Ohio), and *Fitzgerald v. Armes, et al.*, No. 1:14-cv-479 (D. Del.), allege that the defendants breached their fiduciary duties to the Company by issuing allegedly misleading disclosures in connection with the terminated merger transaction. The *Zwang* and *Fitzgerald* lawsuits also allege that the defendants violated Section 14(a) of the Securities Exchange Act of 1934 by means of the same allegedly misleading disclosures. The complaints also variously assert claims for waste of corporate assets, unjust enrichment, gross mismanagement and abuse of control. The complaints seek, among other things, unspecified money damages from the defendants, injunctive relief and an award of attorney's fees.

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated.

These cases have recently been filed and are at an early stage and they do not assert claims for damages against the Company. The outcome of these pending proceedings cannot be predicted with certainty and an estimate of any loss cannot be made at this time. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations.

### ***Other Litigation***

In addition to the proceedings described above, the Company is involved in various other legal proceedings arising in the ordinary course of business. The Company regularly reviews the probable outcome of these proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for these proceedings at the time a loss is probable and the amount of the loss can be estimated. Although the outcome of these pending proceedings cannot be predicted with certainty and an estimate of any such loss cannot be made, the Company believes that any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations.

## **14. Income Taxes**

For the quarter ended March 31, 2014, the Company recorded income tax expense of \$22,567 (effective rate of 30.4 percent) as compared to \$27,617 (effective rate of 30.3 percent) for the comparable period in 2013. The 2014 three-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. Income tax expense for the quarter is lower due to decreased pretax earnings primarily in the U.S.

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 at March 31, 2014, 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 \$22,072. In addition, the Company has recorded valuation allowances of \$10,205 relating to non-U.S. net operating losses for a total valuation allowance of \$32,277. 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 March 31, 2014, the Company's liability, exclusive of interest, totals approximately \$5,878. The Company accrued an immaterial amount of interest expense related to these unrecognized tax benefits during the quarter.

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.

## 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 March 31,		
	2013	Change	2014
<b>Revenues:</b>			
North American Tire			
External customers	\$ 587.3	-7.4%	\$ 544.0
Intercompany	15.0	30.0%	19.5
	602.3	-6.4%	563.5
International Tire			
External customers	274.9	-8.1%	252.5
Intercompany	66.1	-13.2%	57.4
	341.0	-9.1%	309.9
Eliminations	(81.6)	-5.6%	(77.0)
<b>Net sales</b>	<b>\$ 861.7</b>	<b>-7.6%</b>	<b>\$ 796.4</b>
<b>Segment profit (loss):</b>			
North American Tire	71.4	-3.9%	68.6
International Tire	30.0	-23.0%	23.1
Unallocated corporate charges	(5.8)	93.1%	(11.2)
Eliminations	1.1	-63.6%	0.4
<b>Operating profit</b>	<b>96.7</b>	<b>-16.3%</b>	<b>80.9</b>
Interest expense	(7.1)	0.0%	(7.1)
Interest income	0.3	66.7%	0.5
Other income	0.6	-100.0%	
<b>Income before income taxes</b>	<b>90.5</b>	<b>-17.9%</b>	<b>74.3</b>
Income tax expense	27.6	-18.1%	22.6
<b>Net income</b>	<b>62.9</b>	<b>-17.8%</b>	<b>51.7</b>
Noncontrolling shareholders' interests	6.8	-7.4%	6.3
<b>Net income attributable to Cooper Tire &amp; Rubber Company</b>	<b>56.1</b>	<b>-19.1%</b>	<b>45.4</b>

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Basic earnings per share attributable to Cooper Tire & Rubber Company	\$ 0.89	\$ 0.72
Diluted earnings per share attributable to Cooper Tire & Rubber Company	\$ 0.87	\$ 0.71

Consolidated net sales for the three-month period ended March 31, 2014 were \$796 million, a decrease of \$65 million from the comparable period one year ago. The decrease in net sales was the result of less favorable pricing and mix (\$87 million), partially offset by an increase in unit volumes (\$11 million) and favorable exchange rates in the International segment (\$11 million) in the quarter.

The Company recorded operating profit in the first quarter of 2014 of \$81 million, a decrease of \$16 million compared with the first quarter of 2013. Unfavorable pricing and mix (\$96 million) was partially offset by lower raw material costs (\$67 million), favorable manufacturing cost efficiencies (\$11 million), higher unit volumes (\$8 million) and lower products liability charges (\$2 million). Selling, general and administrative costs (\$5 million) increased compared with the first quarter of 2013. Other operating costs, including increased distribution costs associated with carrying higher finished goods inventories, were unfavorable (\$3 million).

The Company experienced decreases in the costs of certain of its principal raw materials in the first quarter of 2014 compared with the first quarter of 2013. 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 \$19 million and \$21 million in the first quarter of 2014 and 2013, respectively. The change in the expense 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 \$66 million in the first quarter of 2014 (8.3 percent of net sales) and \$61 million in the first quarter of 2013 (7.1 percent of net sales). The increase in selling, general and administrative expenses was driven by increased professional fees, including costs in support of the implementation of the Company's new ERP system. Lower net revenue also contributed to the increase in selling, general and administrative expenses as a percent of sales.

Interest expense, interest income and other income remained consistent with the first quarter of 2013.

For the quarter ended March 31, 2014, the Company recorded income tax expense of \$23 million (effective rate of 30.4 percent) as compared to \$28 million (effective rate of 30.3 percent) for the comparable period in 2013. The 2014 three-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 is lower due to decreased pretax earnings, mostly in the U.S.

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 \$10 million relating to non-U.S. net operating losses for a total valuation allowance of \$32 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.

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**North American Tire Operations Segment**

	<b>Three months ended March 31,</b>		
	<b>2013</b>	<b>Change</b>	<b>2014</b>
(Dollar amounts in millions)			
Sales	\$ 602.3	-6.4%	\$ 563.5
Operating profit	\$ 71.4	-3.9%	\$ 68.6
Operating margin	11.9%	.3 points	12.2%
United States unit shipments changes:			
Passenger tires			
Segment		3.8%	
RMA members		0.3%	
Total Industry		4.1%	
Light truck tires			
Segment		20.2%	
RMA members		4.6%	
Total Industry		7.7%	
Total light vehicle tires			
Segment		6.8%	
RMA members		0.8%	
Total Industry		4.6%	
Total segment unit sales change		5.2%	

The source of this information is the Rubber Manufacturers Association 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 decreased \$39 million, or 6.4 percent from the first quarter of 2013. The decrease in sales was a result of unfavorable pricing and mix (\$70 million), partially offset by increased unit volumes (\$31 million). Unit shipments for the segment increased 5.2 percent compared with the first quarter of 2013. In the U.S., the segment's unit shipments of total light vehicle tires increased 6.8 percent in 2014 compared with 2013. This increase compares with a 0.8 percent increase in total light vehicle tire shipments experienced by the members of the Rubber Manufacturers Association ( RMA ), and a 4.6 percent increase in total light vehicle tire shipments experienced for the total industry (which includes an estimate for non-RMA members). In the first quarter of 2013, North American volumes were negatively impacted by the Company's ERP system conversion and inventory adjustments made by certain key customers.

## Operating Profit

Operating profit for the segment decreased \$3 million to \$69 million in the first quarter of 2014. Unfavorable pricing and mix (\$70 million) was offset by lower raw material costs (\$50 million), higher unit volumes (\$10 million), favorable manufacturing cost efficiencies (\$10 million) and lower products liability charges (\$2 million). Selling, general and administrative costs (\$1 million) were higher in the first quarter of 2014. Other operating costs, including increased distribution costs, were unfavorable (\$4 million) compared with the same period in 2013.

The segment's internally calculated raw material index of 200 during the quarter was a decrease of 10.9 percent from the first quarter of 2013.

## International Tire Operations Segment

	Three months ended March 31,		
	2013	Change	2014
(Dollar amounts in millions)			
Sales	\$ 341.0	-9.1%	\$ 309.9
Operating profit	\$ 30.0	-23.0%	\$ 23.1
Operating margin	8.8%	(1.3) points	7.5%
Unit sales change		-2.1%	

### 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. The CCT joint venture 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 also have 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 decreased \$31 million, or 9.1 percent, from the first quarter of 2013. The decrease in sales was a result of unfavorable price and mix (\$35 million) and lower unit volumes (\$7 million), partially offset by favorable exchange rates (\$11 million) in the quarter. The decline in sales volume was driven by reduced passenger car tire and medium truck shipments, including intercompany shipments, reflecting primarily the lingering effects from the labor disruptions at CCT.

### Operating Profit

Operating profit for the segment decreased \$7 million to \$23 million in the first quarter of 2014. Unfavorable pricing and mix (\$30 million) and lower unit volumes (\$2 million) were partially offset by lower raw material costs (\$22 million) and favorable manufacturing efficiencies (\$2 million). Selling, general and administrative costs (\$1 million) decreased compared to the first quarter of 2013.

### Outlook for Company

The Company is viewing 2014 with cautious optimism as the year looks to be another period of highly competitive markets and varying economic conditions. Demand for tires will vary by region.

The Company believes that the most significant effects from issues at the CCT Joint Venture and ERP system deployments during 2013 have diminished during the first quarter of 2014. As a result, the Company expects unit volumes to begin to recover in key markets during the first half of 2014 and the Company believes it will meet or exceed industry unit volume growth rates in its key markets for the full year. This includes the impacts from increased competition for private label and lower price point tires in the United States.



The Company expects to determine the long-term ownership of the CCT Joint Venture in 2014. The Company will continue to pursue its strategic goals for growth, including in China, regardless of changes to the long-term ownership of CCT.

The Company expects raw material prices to remain volatile. Second quarter 2014 raw material prices are expected to be about flat sequentially compared to the first quarter. On a longer term basis the Company expects raw material prices to generally increase, with periods of volatility. The industry has demonstrated an ability to price to help offset raw material cost volatility, but these price changes typically lag the raw material price changes.

The Company will be investing in the business and expects capital expenditures for 2014 to total \$165 million to \$175 million. While expenditures are higher than depreciation and amortization, the investments are in line with its strategic goals to enhance the capability of global assets and resources.

The Company expects its effective tax rate for 2014 will most likely be between 29 percent and 35 percent.

The Company's record of achievements gives it confidence that it can successfully compete in a volatile economy and industry. The Company's focus in 2014 will continue to be guided by its Strategic Plan which calls for achieving profitable top line growth, improving its global cost structure and improving organizational capabilities. The Company believes it will respond and manage the business accordingly to deliver value to its stakeholders.

### **Liquidity and Capital Resources**

*Generation and uses of cash* Operating activities used \$28 million of cash during the first quarter of 2014 compared to \$34 million during the first quarter of 2013. The increase in accounts receivable balances is the result of the Company beginning the 2014 year with lower accounts receivable balances due to reduced fourth quarter sales levels. Accounts payable balances increased during the first quarter of 2014 as Company raw material purchases have increased.

Net cash used in investing activities during the first quarters of 2013 and 2014 reflect capital expenditures of \$49 million and \$40 million, respectively.

In both 2013 and 2014, the Company's subsidiaries borrowed additional funds using long-term debt and in 2014, these subsidiaries repaid \$5 million of maturing long-term debt.

Dividends paid on the Company's common shares in the first quarters of 2013 and 2014 were \$7 million.

*Available cash, credit facilities and contractual commitments* At March 31, 2014, the Company had cash and cash equivalents of \$336 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 March 31, 2014 was \$266 million.

The Company's affiliated operations in Asia have annual renewable unsecured credit lines that provide up to \$427 million of borrowings and do not contain financial covenants. The additional borrowing capacity on the Asian credit lines totaled \$368 million.

The Company believes that its cash and cash equivalent balances along with available cash from operating cash flows and credit facilities will be adequate to fund its typical needs, including working capital requirements, projected capital expenditures, including its portion of capital expenditures in partially-owned subsidiaries, and dividend goals. The Company also believes it has access to additional funds from capital markets to fund potential strategic initiatives. The entire amount of short-term notes payable outstanding at March 31, 2014 is primarily debt of consolidated subsidiaries. The Company expects its subsidiaries to refinance or pay these amounts during 2014.

The Company expects capital expenditures for 2014 to be in the \$165 to \$175 million.

The following table summarizes long-term debt at March 31, 2014:

Parent company	
8% unsecured notes due December 2019	\$ 173.6
7.625% unsecured notes due March 2027	116.9
Capitalized leases and other	8.1
	298.6
Subsidiaries	
4.269% to 6.15% unsecured notes due in 2014	12.2
4.274% to 4.702% unsecured notes due in 2015	8.5
4.00% to 6.15% unsecured notes due in 2016	10.8
4.40% to 6.15% unsecured notes due in 2017	13.0
4.76% and 6.37% secured notes due in 2016	4.1
	48.6
Total long-term debt	347.2
Less current maturities	19.4
	\$ 327.8

### 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 settlements because an average settlement cost would not be meaningful since the products liability claims faced by the Company are unique and widely variable. 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 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 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.

In addition to the product liability cases described above, the Company is involved in various other legal proceedings arising in the ordinary course of business. The Company regularly reviews the probable outcome of these proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for these proceedings at the time a loss is probable and the amount of the loss can be estimated. Although the outcome of these pending proceedings cannot be predicted with certainty and an estimate of any such loss cannot be made, the Company believes that any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations. Additional information regarding the Company's legal proceedings is included in Item 1 of Part II of this Form 10-Q titled, "Legal Proceedings."

### **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, 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;

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 stockholders 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 or other unfavorable outcomes;

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 previously announced agreement between the Company and the CCT joint-venture partner;

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.

#### **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 Rules 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 Securities and Exchange Commission ( 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.

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 March 31, 2014 ( Evaluation Date )). Based on its initial evaluation, the Company s CEO and CFO concluded that its disclosure controls and procedures were effective as of the Evaluation Date.

There were no changes in the Company s internal control over financial reporting that occurred during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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## Part II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS.

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are products liability cases in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. After reviewing all of these proceedings, and taking into account all relevant factors concerning them, the Company does not believe that any liabilities resulting from these proceedings are reasonably likely to have a material adverse effect on its liquidity, financial condition or results of operations in excess of amounts recorded at March 31, 2014. In the future, such costs could have a materially greater impact on the consolidated results of operations and financial position of the Company than in the past.

#### *Certain Litigation Related to the Apollo Merger*

Following the announcement of the proposed acquisition of the Company by wholly owned subsidiaries of Apollo Tyres Ltd. (the Apollo entities) in June 2013, alleged stockholders of the Company filed putative class action lawsuits in state courts in Delaware and Ohio. These lawsuits, captioned *In re Cooper Tire & Rubber Co. Stockholders Litigation*, No. 9658 VCL and *Auld v. Cooper Tire & Rubber Co., et al.*, No. 2013 CV 293, alleged that the directors of the Company breached their fiduciary duties to the Company's stockholders by agreeing to enter into the proposed transaction for an allegedly unfair price and as the result of an allegedly unfair process. The lawsuits sought, among other things, declaratory and injunctive relief. As discussed below, on December 30, 2013, the Company terminated the merger agreement with the Apollo entities. Following the termination of the merger agreement, the plaintiffs voluntarily dismissed the Delaware and Ohio lawsuits in April 2014.

On October 4, 2013, the Company filed a complaint in the Court of Chancery of the State of Delaware, captioned *Cooper Tire Co. v. Apollo (Mauritius) Holdings Pvt. Ltd., et al.*, No. 8980- VCG, asking that the Apollo entities be required to use their reasonable 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. Briefing on that motion is complete. The court has not set a hearing date for that motion.

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated.

An estimate of any such loss cannot be made at this time, as no claims for damages against the Company have been asserted and the outcome of these pending proceedings cannot be predicted with certainty. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations.

#### *Federal Securities Litigation*

On January 17, 2014, alleged stockholders of the Company filed a putative class-action lawsuit against the Company and certain of its officers 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.

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated.

This case has recently been filed and is at an early stage. As a result, the outcome of these pending proceedings cannot be predicted with certainty and an estimate of any such loss cannot be made at this time. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations.

#### ***Stockholder Derivative Litigation***

On February 24, March 6, and April 17, 2014, purported stockholders of the Company filed derivative actions on behalf of the Company in the U.S. District Court for the Northern District of Ohio and the U.S. District Court for the District of Delaware against certain current officers and employees and the current

members of the Company's board of directors. The Company is named as a nominal defendant in the lawsuits, and the lawsuits seek recovery for the benefit of the Company. The lawsuits, captioned *Bui v. Armes, et al.*, No. 3:14-cv-00428 (N.D. Ohio), *Zwang v. Armes, et al.*, No. 3:14-cv-00511 (N.D. Ohio), and *Fitzgerald v. Armes, et al.*, No. 1:14-cv-479 (D. Del.), allege that the defendants breached their fiduciary duties to the Company by issuing allegedly misleading disclosures in connection with the terminated merger transaction. The *Zwang* and *Fitzgerald* lawsuits also allege that the defendants violated Section 14(a) of the Securities Exchange Act of 1934 by means of the same allegedly misleading disclosures. The complaints also variously assert claims for waste of corporate assets, unjust enrichment, gross mismanagement and abuse of control. The complaints seek, among other things, unspecified money damages from the defendants, injunctive relief and an award of attorney's fees.

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated.

These cases are recently filed and are at an early stage and they do not assert claims for damages against the Company. The outcome of these pending proceedings cannot be predicted with certainty and an estimate of any such award cannot be made at this time. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations.

#### **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 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.***

The Company has experienced work stoppages and other labor disruptions at CCT related to concerns regarding the then-pending merger agreement between the Apollo entities 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 the Apollo entities. 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 may be adversely affected by legal actions, including 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 legal actions, including 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.



From time to time, the Company is also subject to litigation or other commercial disputes and other legal proceedings relating to its business, including purported class action lawsuits, derivative lawsuits and other litigation related to the now terminated merger agreement with the Apollo entities. Due to the inherent uncertainties of any litigation, commercial disputes or other legal proceedings, the Company cannot accurately predict their ultimate outcome, including the outcome of any related appeals. An unfavorable outcome could materially adversely impact the Company's financial condition, 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 have 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

- (10.1) Form of Participation Agreement for Performance Stock Unit and Cash Unit Awards Under the 2010 Incentive Compensation Plan\*
- (10.2) Form of Participation Agreement for Nonqualified Stock Option Awards Under the 2010 Incentive Compensation Plan\*
- (10.3) Agreement dated as of January 29, 2014 by and among Cooper Tire & Rubber Company, Cooper Tire Investment Holding (Barbados) Ltd, Chengshan Group Company Ltd. and The Union of Cooper Chengshan (Shandong) Tire Company Co., Ltd.
- (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

\* Indicates management contracts or compensatory plans or arrangements.

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)

May 2, 2014

(Date)