

COOPER TIRE & RUBBER CO

Form 10-Q/A

August 05, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
FORM 10-Q/A**

☐ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the quarterly period ended March 31, 2010**

**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 ☐

Smaller reporting  
company ☐

(Do not check if a  
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, 2010: 61,230,969



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**EXPLANATORY NOTE**

Cooper Tire & Rubber Company (the Company) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q (Form 10-Q/A) for the period ended March 31, 2010, which was filed with the Securities and Exchange Commission (SEC) on May 5, 2010 (the Original Filing). The Company is filing this Form 10-Q/A to reflect restatements of its condensed consolidated balance sheets at March 31, 2010 and December 31, 2009, and its condensed consolidated statements of operations for the three month periods ended March 31, 2010 and March 31, 2009, and the related notes thereto, as a result of a review of the Company's accounting of noncontrolling shareholders' interests.

Historically, the Company classified the Cooper Chengshan noncontrolling shareholders' interest as permanent equity. After consideration of the applicable financial accounting guidance and evaluation of the related agreements, management determined that noncontrolling shareholders' interest in Cooper Chengshan should be classified as a redeemable noncontrolling shareholder interest in mezzanine equity on the balance sheet. Pursuant to the agreements related to Cooper Chengshan, the owners of the noncontrolling shareholders' interest in Cooper Chengshan had the right to sell and, if exercised, the Company had the obligation to purchase, the remaining 49 percent noncontrolling shareholders' interest share at a minimum price of \$62.7 million. This put option was previously disclosed in the footnotes to the financial statements, with a term beginning January 1, 2009 and continuing through December 31, 2011. The restatement also relates, in part to the Company's accounting for foreign currency translation adjustments. In accordance with applicable financial accounting guidance, a portion of the currency translation adjustment recorded in comprehensive income (loss) and cumulative other comprehensive loss should have been allocated to the noncontrolling shareholders' interests in consolidated subsidiaries which include Cooper Chengshan, Cooper Kenda and Cooper de Mexico. For a more detailed description of the restatement, see Note 1 in the Notes to the Consolidated Financial Statements.

This Form 10-Q/A amends and restates Item 1 of Part I, Financial Statements, Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 4 of Part I, Controls and Procedures, and Item 1A of Part II, Risk Factors of the Original Filing, in each case, solely as a result of, and to reflect, the restatement. Pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain the currently-dated certifications from the Company's principal executive officer and principal financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company's principal executive officer and principal financial officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2 and 32.

Except for the foregoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and the Company has not updated the disclosures contained herein to reflect events that have occurred subsequent to that date. Other events occurring after the date of the Original Filing or other information necessary to reflect subsequent events have been disclosed in reports filed with the SEC subsequent to the Original Filing.

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## Part I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

COOPER TIRE & RUBBER COMPANY  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Dollar amounts in thousands except per-share amounts)

	December 31, 2009 (Note 1)	March 31, 2010 (Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 426,981	\$ 337,500
Accounts receivable, less allowances of \$10,928 in 2009 and \$11,161 in 2010	367,023	458,968
Inventories at lower of cost or market:		
Finished goods	188,323	210,865
Work in process	22,090	28,536
Raw materials and supplies	88,022	121,548
	298,435	360,949
Other current assets	39,392	39,165
Total current assets	1,131,831	1,196,582
Property, plant and equipment:		
Land and land improvements	33,321	33,330
Buildings	320,021	317,869
Machinery and equipment	1,587,306	1,583,168
Molds, cores and rings	246,395	246,871
	2,187,043	2,181,238
Less accumulated depreciation and amortization	1,336,072	1,347,601
Net property, plant and equipment	850,971	833,637
Intangibles, net of accumulated amortization of \$23,165 in 2009 and \$23,492 in 2010	18,546	18,219
Restricted cash	2,219	2,172
Other assets	96,773	92,282
	\$ 2,100,340	\$ 2,142,892
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Notes payable	\$ 156,719	\$ 145,088
Accounts payable	300,448	352,029
Accrued liabilities	158,643	155,292
Income taxes	3,955	5,318
Liabilities of discontinued operations	1,061	1,052
Current portion of long term debt	15,515	4,995

Total current liabilities	636,341	<b>663,774</b>
Long-term debt	330,971	<b>327,441</b>
Postretirement benefits other than pensions	244,905	<b>246,624</b>
Pension benefits	272,050	<b>265,963</b>
Other long-term liabilities	145,978	<b>174,072</b>
Long-term liabilities related to the sale of automotive operations	6,043	<b>5,888</b>
Redeemable noncontrolling shareholders' interests	83,528 <sup>1</sup>	<b>55,041 <sup>1</sup></b>
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 in 2009 and in 2010	87,850	<b>87,850</b>
Capital in excess of par value	70,645	<b>56,338</b>
Retained earnings	1,133,133	<b>1,137,764</b>
Cumulative other comprehensive loss	(470,272) <sub>1</sub>	<b>(456,816)<sub>1</sub></b>
	821,356 <sub>1</sub>	<b>825,136<sub>1</sub></b>
Less: common shares in treasury at cost (27,327,646 in 2009 and 26,635,823 in 2010)	(490,548)	<b>(476,503)</b>
Total parent stockholders' equity	330,808 <sub>1</sub>	<b>348,633<sub>1</sub></b>
Noncontrolling shareholders' interests in consolidated subsidiaries	49,716 <sub>1</sub>	<b>55,456<sub>1</sub></b>
Total equity	380,524 <sub>1</sub>	<b>404,089<sub>1</sub></b>
	\$ 2,100,340	<b>\$ 2,142,892</b>

<sup>1</sup> Amounts have been restated, see Footnote 1 for additional information.

See accompanying notes.

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COOPER TIRE & RUBBER COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 THREE MONTHS ENDED MARCH 31, 2009 AND 2010  
 (UNAUDITED)  
 (Dollar amounts in thousands except per-share amounts)

	2009	2010
Net sales	\$ 571,408	<b>\$ 754,443</b>
Cost of products sold	521,139	<b>669,271</b>
Gross profit	50,269	<b>85,172</b>
Selling, general and administrative	45,106	<b>44,605</b>
Restructuring	14,352	<b>7,612</b>
Settlement of retiree medical case	7,050	
Operating profit (loss)	(16,239)	<b>32,955</b>
Interest expense	12,655	<b>8,730</b>
Interest income	(1,375)	<b>(1,213)</b>
Other income	(823)	<b>(237)</b>
Income (loss) from continuing operations before income taxes	(26,696)	<b>25,675</b>
Income tax expense (benefit)	(3,773)	<b>7,743</b>
Income (loss) from continuing operations	(22,923)	<b>17,932</b>
Income (loss) from discontinued operations, net of income taxes	(364)	<b>(760)</b>
Net income (loss)	(23,287)	<b>17,172</b>
Net income (loss) attributable to noncontrolling shareholders' interests	(2,020)	<b>5,596</b>
Net income (loss) attributable to Cooper Tire & Rubber Company	\$ (21,267)	<b>\$ 11,576</b>
Basic earnings per share:		
Income (loss) from continuing operations attributable to Cooper Tire & Rubber Company	\$ (0.37) <sup>1</sup>	<b>\$ 0.20</b>
Income (loss) from discontinued operations	(0.01)	<b>(0.01)</b>
	\$ (0.38) <sup>1</sup>	<b>\$ 0.19</b>



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Net income (loss) available to Cooper Tire & Rubber Company common stockholders

Diluted earnings per share:

Income (loss) from continuing operations attributable to Cooper Tire & Rubber Company

\$ (0.37)<sub>1</sub> \$ **0.20**

Income (loss) from discontinued operations

(0.01) **(0.01)**

Net income (loss) available to Cooper Tire & Rubber Company common stockholders

\$ (0.38)<sub>1</sub> \$ **0.19**

Dividends per share

\$ 0.105 \$ **0.105**

*1 Amounts have been restated, see Footnote 1 for additional information*

See accompanying notes.

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COOPER TIRE & RUBBER COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED MARCH 31, 2009 AND 2010  
(UNAUDITED)  
(Dollar amounts in thousands)

	2009	2010
Operating activities:		
Net income (loss)	\$ (23,287)	\$ 17,172
Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operations:		
Loss from discontinued operations, net of income taxes	364	760
Depreciation	30,551	29,859
Amortization	566	501
Deferred income taxes	(66)	(154)
Stock based compensation	838	1,087
Change in LIFO inventory reserve	(87,559)	15,021
Amortization of unrecognized postretirement benefits	7,410	8,282
Loss (gain) on sale of assets	(46)	211
Changes in operating assets and liabilities of continuing operations:		
Accounts receivable	(36,396)	(107,397)
Inventories	105,610	(80,030)
Other current assets	1,855	2,880
Accounts payable	14,027	52,914
Accrued liabilities	14,923	8,496
Other items	4,471	21,062
Net cash provided by (used in) continuing operations	33,261	(29,336)
<i>Net cash used in discontinued operations</i>	(613)	(924)
Net cash provided by (used in) operating activities	32,648	(30,260)
Investing activities:		
Additions to property, plant and equipment	(16,917)	(15,464)
Investments in unconsolidated subsidiary	(86)	
Proceeds from the sale of assets	208	80
Net cash used in investing activities	(16,795)	(15,384)
Financing activities:		
Issuance of (payments on) short-term debt	(17,310)	(14,466)
Payments on long-term debt	(4,380)	(10,600)
Contributions by noncontrolling shareholder		5,250
Acquisition of noncontrolling shareholder interest		(17,920)
Payment of dividends	(6,190)	(6,416)
Issuance of common shares and excess tax benefits on options		2,167
Net cash used in financing activities	(27,880)	(41,985)

Effects of exchange rate changes on cash of continuing operations	(2,952)	<b>(1,852)</b>
Changes in cash and cash equivalents	(14,979)	<b>(89,481)</b>
Cash and cash equivalents at beginning of year	247,672	<b>426,981</b>
Cash and cash equivalents at end of period	\$ 232,693	<b>\$ 337,500</b>
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. 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 passenger 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, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010.

On August 4, 2010, the Company filed an amendment to its Annual Report on Form 10-K ( Form 10-K/A ) for the fiscal year ended December 31, 2009, which was filed with the Securities and Exchange Commission (SEC) on March 2, 2010 (the Original Filing ). The Company filed this Form 10-K/A to reflect restatements of its Consolidated Balance Sheets at December 31, 2009 and December 31, 2008, and its consolidated Statements of Operations and Equity for the fiscal years ended December 31, 2009, December 31, 2008 and December 31, 2007, and the related notes thereto, as a result of a review of the Company's accounting for its noncontrolling shareholders' interests. The balance sheet at December 31, 2009 included herein has been derived from the restated audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The restatement relates, in part, to the Company's classification of the noncontrolling shareholders' interests in Cooper Chengshan. Historically, the Company classified the Cooper Chengshan noncontrolling shareholders' interests as permanent equity. After consideration of the applicable financial accounting guidance and evaluation of the related agreements, classification of the noncontrolling interest as redeemable noncontrolling shareholders' interest within mezzanine equity was deemed appropriate. Further, the restatement reflects the reclassification of a portion of the currency translation adjustment recorded in the Company's comprehensive income (loss) which should have been allocated to comprehensive income attributable to noncontrolling shareholders' interest in consolidated subsidiaries.

In connection with the investment in Cooper Chengshan, beginning January 1, 2009 and continuing through December 31, 2011, the noncontrolling shareholders have the option, which is embedded in the noncontrolling interest, to require the Company to purchase the remaining 49 percent noncontrolling share at the greater of a minimum price of \$62,700 or a formula price that varies based on operating results of the entity. The combination of a noncontrolling interest and a put option resulted in a redeemable noncontrolling shareholder interest. The put option is not separated from the shares as an embedded derivative because the underlying shares are not readily convertible into cash.

The noncontrolling interest is redeemable at other than fair value as the put value is determined to be the greater of either a fixed amount or a specific formulaic amount as described above. The Company records the noncontrolling shareholders' interests in Cooper Chengshan at the greater of 1) the initial carrying amount, increased or decreased for the noncontrolling shareholders' share of net income or loss and its share of other comprehensive income or loss and dividends ( carrying amount ) or 2) the value of the put option which is determined based on the greater of the minimum amount or the formula derived amount. Prior to exercisability of the put option on January 1, 2009, the noncontrolling shareholders' interest has been recorded at the greater of 1) the carrying amount or 2) the cumulative amount required to accrete the initial carrying amount to the redemption value using the effective

interest method which resulted in accretion of \$1,110 during the quarter ended March 31, 2009 with an offset to Retained earnings. According to authoritative accounting guidance, the Redeemable noncontrolling shareholders interests are classified outside of permanent equity, mezzanine equity, on the Company's Condensed Consolidated Balance Sheets.

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According to authoritative accounting guidance for redeemable noncontrolling shareholders' interests, to the extent the noncontrolling shareholders have a contractual right to receive an amount upon exercise of a put option that is other than fair value, and such amount is greater than carrying value, then the noncontrolling shareholder has, in substance, received a dividend distribution that is different than other common stockholders. Therefore accretion adjustments to the carrying value of noncontrolling shareholders' interests to reflect the put option amount should also be reflected in the computation of earnings per share available to the Company's common stockholders. The tables below present the impact of these adjustments on the Company's earnings per share, selected components of the Condensed Consolidated Balance Sheets and the Company's comprehensive income (loss):

	Three months ended March 31, 2009	
	As Originally Reported	Restated
Basic earnings per share:		
Loss from continuing operations available to Cooper Tire & Rubber Company common stockholders	\$ (0.35)	\$ (0.37)
Loss from discontinued operations	(0.01)	(0.01)
Net loss available to Cooper Tire & Rubber Company common stockholders	\$ (0.36)	\$ (0.38)
Diluted earnings per share:		
Loss from continuing operations available to Cooper Tire & Rubber Company common stockholders	\$ (0.35)	\$ (0.37)
Loss from discontinued operations	(0.01)	(0.01)
Net loss available to Cooper Tire & Rubber Company common stockholders	\$ (0.36)	\$ (0.38)

	As of December 31, 2009		As of March 31, 2010	
	As Originally Reported	Restated	As Originally Reported	Restated
Redeemable noncontrolling shareholders' interest		<b>83,528</b>		<b>55,041</b>
Cumulative other comprehensive loss	(455,750)	<b>(470,272)</b>	(444,946)	<b>(456,816)</b>
Total parent stockholders' equity	345,330	<b>330,808</b>	360,503	<b>348,633</b>
Noncontrolling shareholders' interests in consolidated subsidiaries	118,722	<b>49,716</b>	98,627	<b>55,456</b>
Total stockholders' equity	464,052	<b>380,524</b>	459,130	<b>404,089</b>

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	Three months ended March 31, 2009		Three months ended March 31, 2010	
	As Originally Reported	Restated	As Originally Reported	Restated
Net income (loss) attributable to Cooper Tire & Rubber Company	\$ (21,267)	\$ (21,267)	\$ 11,576	\$ 11,576
Other comprehensive income (loss):				
Currency translation adjustments	(2,982)	(3,083)	(7,224)	(4,572)
Unrealized net gains (losses) on derivative instruments and marketable securities, net of tax	3,367	3,367	1,362	1,362
Unrecognized postretirement benefit plans, net of tax	354	354	16,666	16,666
Comprehensive income (loss) attributable to Cooper Tire & Rubber Company	(20,528)	(20,629)	22,380	25,032
Net income attributable to noncontrolling shareholders interests	(2,020)	(2,020)	5,596	5,596
Other comprehensive income (loss):				
Currency translation adjustments		101		(2,652)
Comprehensive income attributable to noncontrolling shareholders interests	(2,020)	(1,919)	5,596	2,944
Total comprehensive income (loss)	\$ (22,548)	\$ (22,548)	\$ 27,976	\$ 27,976

The consolidated financial statements include the accounts of the Company, its majority-owned (based on voting interests) subsidiaries and variable-interest entities for which the Company is the primary beneficiary. Acquired businesses are included in the consolidated financial statements from the dates of acquisition. The Company consolidates certain joint ventures in which it has a variable interest based on power to direct the activities and significant participation in expected returns of the joint venture. On January 1, 2010, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 167, Amendments to FASB Interpretation No. 46(R) . The requirements of SFAS No. 167 have been incorporated into Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 810, Consolidation . SFAS No. 167 changes the consolidation guidance for variable interest entities and the adoption of this standard did not have a material impact on the Company s consolidated financial statements. All intercompany accounts and transactions have been eliminated.

The equity method of accounting is followed for investments in 20 percent to 50 percent owned companies that are not otherwise consolidated based on variable interests. The Company s investment in the Mexican tire manufacturing facility represents an approximate 38 percent ownership interest.

The cost method is followed in those situations where the Company s ownership is less than 20 percent and the Company does not have the ability to exercise significant influence over the affiliate.

The Company entered into a joint venture with Kenda Tire Company to construct and operate a tire manufacturing facility in the People s Republic of China ( PRC ) which began production in 2007. Until May 2012, all of the tires

produced by this joint venture are required to be exported and sold by Cooper Tire & Rubber Company and its affiliates. Due to this requirement, the Company has the power to direct the manufacturing operations of the joint venture to produce the types of tires required by the Company to meet its global demands. The Company has determined it is the primary beneficiary of this joint venture because of the operational control and the fact it currently receives all of the tires produced by this manufacturing operation.



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The Company has also entered into a joint venture with Nemet International to market and distribute Cooper, Pneustone and associated brand tires in Mexico. The Company has determined it has the power to control the purchasing and marketing of tires for this joint venture. The Company has also provided additional financial support to this joint venture in order to allow it to finance its business activities. The joint venture partner has not provided such additional support. The Company has determined it is the primary beneficiary of this joint venture due to its ability to control the primary economic activity and to the subordinated financial support it has provided to the entity which would require the Company to absorb more than 50% of expected losses.

Since the Company has determined that each of these entities is a Variable Interest Entity (VIE) and it is the primary beneficiary, it has included their assets, liabilities and operating results in its consolidated financial statements. The Company has recorded the interest related to the joint venture partners' ownership in noncontrolling shareholders' interests in consolidated subsidiaries. The following table summarizes the balance sheets of these variable interest entities at December 31, 2009 and March 31, 2010:

	December 31, 2009	March 31, 2010
Assets		
Cash and cash equivalents	\$ 23,998	\$ 13,196
Accounts receivable	9,359	12,465
Inventories	16,472	20,495
Prepaid expenses	2,688	3,617
Total current assets	52,517	49,773
Net property, plant and equipment	139,705	135,473
Intangibles and other assets	12,773	10,585
Total assets	\$ 204,995	\$ 195,831
Liabilities and stockholders' equity		
Notes payable	\$ 87,016	\$ 76,379
Accounts payable	7,147	10,250
Accrued liabilities	1,118	(1,767)
Current portion of long-term debt	10,525	
Current liabilities	105,806	84,862
Stockholders' equity	99,189	110,969
Total liabilities and stockholders' equity	\$ 204,995	\$ 195,831

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2. Net income (loss) per share is computed on the basis of the weighted average number of common shares outstanding each year. Diluted earnings (loss) per share from continuing operations includes the dilutive effect of stock options and other stock units. The following table sets forth the computation of basic and diluted earnings (loss) per share:

	Three months ended March 31, Restated	
	2009	2010
Numerator		
Income (loss) from continuing operations attributable to Cooper Tire & Rubber Company	\$ (20,903)	\$ 12,336
Accretion of redeemable noncontrolling shareholders' interest	(1,110)	
Numerator for basic and diluted earnings (loss) per share - income (loss) from continuing operations available to common stockholders	\$ (22,013)	\$ 12,336
Denominator		
Denominator for basic earnings (loss) per share - weighted average shares outstanding	58,941	60,614
Effect of dilutive securities - stock options and other stock units		1,680
Denominator for diluted earnings per share - adjusted weighted average share outstanding	58,941	62,294
Basic earnings (loss) per share:		
Income (loss) from continuing operations available to Cooper Tire & Rubber Company common stockholders	\$ (0.37)	\$ 0.20
Loss from discontinued operations, net of income taxes	(0.01)	(0.01)
Net income (loss) available to Cooper Tire & Rubber Company common stockholders	\$ (0.38)	\$ 0.19
Diluted earnings (loss) per share:		
Income (loss) from continuing operations available to Cooper Tire & Rubber Company common stockholders	\$ (0.37)	\$ 0.20
Loss from discontinued operations, net of income taxes	(0.01)	(0.01)
Net income (loss) available to Cooper Tire & Rubber Company common stockholders	\$ (0.38)	\$ 0.19

3.

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, 2009 and March 31, 2010 was \$207,600 and \$187,400, respectively. The counterparties to each of these agreements are major commercial banks.

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

Foreign currency forward contracts are also used to hedge variable cash flows associated with forecasted sales and purchases denominated in currencies that are not the functional currency of certain entities. The forward contracts have maturities of less than twelve months pursuant to the Company's policies and hedging practices. These forward contracts meet the criteria for and have been designated as cash flow hedges. Accordingly, the effective portion of the change in fair value of such forward contracts (approximately \$(2,160) and \$(939) as of December 31, 2009 and March 31, 2010, respectively) are recorded as a separate component of stockholders equity in the accompanying consolidated balance sheets and reclassified into earnings as the hedged transaction affects net sales.

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 consolidated financial statements of operations in the period in which the ineffectiveness occurs. The Company also performs regression analysis comparing the change in value of the hedging contracts versus the underlying foreign currency sales and purchases, which confirms a high correlation and hedge effectiveness.

The following table presents the location and amounts of derivative instrument fair values in the Statement of Financial Position:

(assets)/liabilities	December 31, 2009		March 31, 2010	
	Accrued liabilities		Accrued liabilities	
Derivatives designated as hedging instruments		\$ 2,158		\$ 1,024
Derivatives not designated as hedging instruments	Accrued liabilities	\$ (78)	Accrued liabilities	\$ 412

The following table presents the location and amount of gains and losses on derivative instruments in the consolidated statement of operations:

Derivatives	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion)		Amount of (Gain) Loss Reclassified from Cumulative Other Comprehensive Loss into Net Sales (Effective Portion)		Amount of Gain (Loss) Recognized in Other - net on Derivatives (Ineffective Portion)	
	Three Months Ended March 31, 2009	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Three Months Ended March 31, 2010
Designated as Cash Flow Hedges						
Foreign exchange contracts	\$ 3,647	\$ 2,550	\$ 769	\$ (1,329)	\$ (78)	\$ (29)



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Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives Other income	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31, 2009                      2010	
Foreign exchange contracts		\$ 454	\$ (613)
Interest swap contracts	Other income	2,245	
		\$ 2,699	\$ (613)

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 Consolidated Balance Sheet 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 following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2010:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
		Total Derivative (Assets) Liabilities		
Foreign Exchange Contracts				
March 31, 2010		\$ 1,436	\$ 1,436	
December 31, 2009		\$ 2,080	\$ 2,080	
		12		

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The carrying amounts and fair values of the Company's financial instruments are as follows:

	December 31, 2009		March 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 426,981	\$ 426,981	\$ 337,500	\$ 337,500
Notes payable	(156,719)	(156,719)	(145,088)	(145,088)
Current portion of long-term debt	(15,515)	(15,515)	(4,995)	(4,995)
Long-term debt	(330,971)	(309,371)	(327,441)	(303,441)
Derivative financial instruments	(2,080)	(2,080)	(1,436)	(1,436)

The fair value of the Company's debt is computed using discounted cash flow analyses based on the Company's estimated current incremental borrowing rates.

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

	Three months ended March 31	
	2009	2010
Revenues from external customers:		
North American Tire	\$ 439,317	\$ 531,717
International Tire	166,212	293,557
Eliminations	(34,121)	(70,831)
Net sales	\$ 571,408	\$ 754,443
Segment profit (loss):		
North American Tire	\$ (3,620)	\$ 13,602
International Tire	(2,821)	22,550
Eliminations	(274)	(509)
Unallocated corporate charges	(9,524)	(2,688)
Operating profit (loss)	(16,239)	32,955
Interest expense	12,655	8,730
Interest income	(1,375)	(1,213)
Other income	(823)	(237)
Income (loss) from continuing operations before income taxes	\$ (26,696)	\$ 25,675

5. At December 31, 2009, approximately 45 percent of the Company's inventories had been valued under the LIFO method. At March 31, 2010, approximately 44 percent of the Company's inventories are valued under the LIFO method. The remaining inventories have been valued under the FIFO method or average cost method. All inventories are stated at the lower of cost or market.

Under the LIFO method, inventories have been reduced by approximately \$127,064 and \$142,085 at December 31, 2009 and March 31, 2010, respectively, from current cost which would be reported under the



first-in, first-out method.

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6. The following table discloses the amount of stock based compensation expense for the three-month period ended March 31, 2009 and 2010:

	Three months ended March 31	
	2009	2010
Stock options	\$ 86	\$ 221
Restricted stock units	400	167
Performance based units	352	699
Total stock based compensation	\$ 838	\$ 1,087

Executives participating in the Company's Long-Term Incentive Plan for the plan year 2007-2009 and 2008-2010, earn performance based units based on the Company's financial performance. As part of the 2007-2009 plan, the units earned in 2007 and 2009 vested in February 2010. As part of the 2008-2010 plan, the units earned in 2009 and any units earned in 2010 will vest at December 31, 2010. No units were earned in 2008.

In April 2009, executives participating in the 2009-2011 Long-Term Incentive Plan were granted stock options which vest one third each year from April 2010 through April 2012.

Executives participating in the Company's Long-Term Incentive Plan for the plan year 2010-2012, earn performance based units and cash. Any units and cash earned during 2010 will vest at December 31, 2012. The executives also received stock options which will vest one third each year from March 2011 through March 2013. The following table provides details of the stock option activity for the three months ended March 31, 2010:

	Long-Term Incentive Plan Years	
	2009 - 2011	2010 - 2012
January 1, 2010		
Outstanding	1,037,000	
Exercisable	59,000	
Granted		303,120
Exercised	(35,000)	
March 31, 2010		
Outstanding	1,002,000	303,120
Exercisable	24,000	

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The following table provides details of the restricted stock unit activity for the three months ended March 31, 2010:

Restricted stock units outstanding at January 1, 2010	526,809
Restricted stock units granted	
Accrued dividend equivalents	1,506
Restricted stock units settled	(248,818)
Restricted stock units cancelled	(4,149)
Restricted stock units outstanding at March 31, 2010	275,348

The following table provides details of the performance based units earned under the Company's Long-Term Incentive Plans for the three months ended March 31, 2010:

	Long-Term Incentive Plan Years	
	2007-2009	2008-2010
Performance-based units outstanding at January 1, 2010	559,951	290,860
Accrued dividend equivalents		1,578
Performance-based units settled	(559,951)	
Performance-based units outstanding at March 31, 2010	0	292,438

7. The following table discloses the amount of net periodic benefit costs for the three months ended March 31, 2009 and 2010 for the Company's defined benefit plans and other postretirement benefits relating to continuing operations:

	Pension Benefits		Other Postretirement Benefits	
	2009	2010	2009	2010
Components of net periodic benefit cost:				
Service cost	\$ 3,387	\$ 1,667	\$ 853	\$ 790
Interest cost	14,618	15,624	3,706	3,529
Expected return on plan assets	(13,687)	(16,379)		
Amortization of prior service cost	(1,456)	(158)	(77)	(136)
Recognized actuarial loss	8,925	8,440	18	
Albany settlement loss		3,330		
Net periodic benefit cost	\$ 11,787	\$ 12,524	\$ 4,500	\$ 4,183

During 2010, the Company expects to contribute between \$35,000 and \$40,000 to its domestic and foreign pension plans.

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Act of 2010 (the Act) was enacted. The primary focus of the Act is to significantly reform health care in the U.S.

The Act will reduce the tax deduction available to the Company to the extent of receipt of Medicare Part D

prescription drug subsidy; however, this will not have a material impact on the Company's financial results. The Company is currently evaluating other prospective effects of the Act.

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

	Total Parent Stockholders Equity	Noncontrolling Shareholders Interests in Consolidated Subsidiaries	Total Stockholders Equity	Redeemable Noncontrolling Shareholders Interests
Balance at December 31, 2009 (1)	\$ 330,808	\$ 49,716	\$ 380,524	\$ 83,528
Net income	11,576	685	12,261	4,911
Other comprehensive income (1)	13,456	(195)	13,261	(2,457)
Dividends payable to noncontrolling shareholders				(11,637)
Contribution of noncontrolling shareholder		5,250	5,250	
Acquisition of noncontrolling shareholder interest	1,384		1,384	(19,304)
Stock compensation plans, including tax charge of \$392	(2,175)		(2,175)	
Cash dividends \$.105 per share	(6,416)		(6,416)	
Balance at March 31, 2010 (1)	\$ 348,633	\$ 55,456	\$ 404,089	\$ 55,041

(1) Amounts have been restated, see Footnote 1 for additional information.

The following table provides the details of the Company's comprehensive income (loss). Comprehensive income includes net income and components of other comprehensive income, such as foreign currency translation adjustments, unrealized gains or losses on certain marketable securities and derivative instruments and unrecognized postretirement benefits plans.

The Company's comprehensive income (loss) is as follows:

	Three months ended March 31	
	2009	2010
Net income (loss) attributable to Cooper Tire & Rubber Company	\$ (21,267)	\$ 11,576
Other comprehensive income (loss):		
Currency translation adjustments (1)	(3,083)	(4,572)
Unrealized net gains on derivative instruments and marketable securities, net of tax effect	3,367	1,362
Unrecognized postretirement benefit plans, net of tax effect	354	16,666
Comprehensive income (loss) attributable to Cooper Tire & Rubber Company (1)	(20,629)	25,032
Net income (loss) attributable to noncontrolling shareholders' interests	(2,020)	5,596
Other comprehensive income (loss):		

Currency translation adjustments (1)	101	(2,652)
Comprehensive income (loss) attributable to noncontrolling shareholders interests (1)	(1,919)	2,944
Total comprehensive income (loss)	\$ (22,548)	\$ 27,976

(1) Amounts have  
been restated,  
see Footnote 1  
for additional  
information.

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9. During the first quarter of 2010, the Company recorded restructuring expenses associated with the closure of its Albany, Georgia manufacturing facility. This initiative, announced December 17, 2008, resulted in a workforce reduction of approximately 1,330 people with an estimated cost between \$140,000 and \$145,000 for restructuring expense and asset impairment.

The Company recorded \$4,282 of equipment relocation and other costs during the first quarter of 2010. The Company also recorded \$3,330 of employee related costs representing pension settlement losses. Through March 31, 2010, the Company has recorded \$130,301 of restructuring costs associated with this initiative.

At January 1, 2010, the accrued severance balance was \$848 and the Company made \$600 of severance payments resulting in an accrued severance balance at March 31, 2010 of \$248.

During the first quarter of 2009, the Company recorded \$4,852 of equipment relocation and other costs related to the Albany closure. The Company also recorded \$9,454 of employee related costs. Included in employee related costs are severance costs of \$10,707 partially offset by the amortization of prior service cost related to pension benefits. The Company also recorded \$46 of restructuring expenses associated with the closure of the Dayton, New Jersey distribution center.

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

	2009	2010
Reserve at January 1	\$ 18,244	<b>\$ 23,814</b>
Additions	2,423	<b>4,223</b>
Payments	(3,084)	<b>(3,902)</b>
Reserve at March 31	\$ 17,583	<b>\$ 24,135</b>

11. 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.

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 35 to 40 million passenger, light truck, SUV, high performance, ultra high performance and radial medium truck tires per year in North America. The Company estimates that approximately 300 million Cooper-produced tires made up of thousands of different specifications are still on the road in North America. While tire disablements do occur, it is the Company's and the tire industry's experience that the vast majority of tire failures relate to service-related conditions which are entirely out of the Company's control such as failure to maintain proper tire

pressure, improper maintenance, road hazard and excessive speed.



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The Company's exposure for each claim occurring prior to April 1, 2003 is limited by the coverage provided by its excess liability insurance program. The program for that period includes a relatively low per claim retention and a policy year aggregate retention limit on claims arising from occurrences which took place during a particular policy year. Effective April 1, 2003, the Company established a new excess liability insurance program. The new program covers the Company's products liability claims occurring on or after April 1, 2003 and is occurrence-based insurance coverage which includes an increased per claim retention limit, increased policy limits and the establishment of a captive insurance company.

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 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 cases 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, the claims asserted and the resolutions of those claims have an enormous amount of variability. The costs have ranged from zero dollars to \$33,000 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.

The Company determines its reserves using the number of incidents expected during a year. During the first quarter of 2010, the Company increased its products liability reserve by \$36,821. The addition of another quarter of self-insured incidents accounted for \$9,890 of this increase. The Company revised its estimates of future settlements for unasserted and premature claims increasing the reserve by \$1,065. Finally, changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by \$25,866. Of this amount, \$21,800 was the result of the Company increasing its self-insured portion of a jury verdict in one case during the first quarter. The Company considered the impact of this case when evaluating the assumptions used in establishing reserve balances and did not adjust its assumptions based solely on this case.

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.

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The Company paid \$4,781 during the first quarter of 2010 to resolve cases and claims. The Company's products liability reserve balance at December 31, 2009 totaled \$151,421 (current portion of \$30,805) and the balance at March 31, 2010 totaled \$183,461 (current portion of \$31,621).

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. The Company is entitled to reimbursement, under certain insurance contracts in place for periods ending prior to April 1, 2003, of legal fees expensed in prior periods based on events occurring in those periods. The Company records the reimbursements under such policies in the period the conditions for reimbursement are met. Products liability expense totaled \$20,568 and \$44,598 for the periods ended March 31, 2009 and 2010, respectively.

12. For the quarter ended March 31, 2010, the Company recorded an income tax expense for continuing operations of \$7,743 including discrete items. The effective tax rate for the three-month period ended March 31, 2010, for continuing operations is 18.9 percent, exclusive of discrete items, using the applicable effective tax rate determined using the forecasted multi-jurisdictional annual effective tax rates. For comparable periods in 2009, the effective tax rate for continuing operations, exclusive of discrete items, was 16.2 percent using forecasted jurisdictional annual effective tax rates. The change in the tax rate, exclusive of discrete items, relates primarily to the reversal of a valuation allowances relating to the anticipated usage of various tax attribute carryforwards including tax credit and net operating loss carryforwards plus the impact of the mix of earnings or loss by jurisdiction as compared to 2009.

The Company maintains a valuation allowance pursuant to ASC 740 Accounting for Income Taxes, on its net U.S. deferred tax asset position. The valuation allowance will be maintained as long as it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are determined separately for each taxing jurisdiction in which the Company conducts its operations or otherwise generates taxable income or losses. In the U.S., the Company has recorded significant deferred tax assets, the largest of which relates to products liability, pension and other postretirement benefit obligations. These deferred tax assets are partially offset by deferred tax liabilities, the most significant of which relates to accelerated depreciation. Based upon this assessment, the Company maintains a \$145,244 valuation allowance for the portion of U.S. deferred tax assets exceeding its U.S. deferred tax liabilities. In addition, the Company has recorded valuation allowances of \$2,475 for deferred tax assets associated with losses in foreign jurisdictions.

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 for continuing operations. At March 31, 2010, the Company's liability, exclusive of interest, totals approximately \$7,461. The Company accrued approximately \$19 of interest expense for the quarter which has been recorded as a discrete item in its tax provision.

In 2003 the Company initiated bilateral Advance Pricing Agreement ( APA ) negotiations with the Canadian and U.S. governments to change its intercompany transfer pricing process between a formerly owned subsidiary, Cooper-Standard Automotive, Inc., ( CSA ) and its Canadian affiliate. In 2009 the governments settled the APA between the governments and the taxpayers for periods 2000-2007. On August 19, 2009, the Company filed an action in the United States Bankruptcy Court, District of Delaware, in response to the Bankruptcy petition filed by Cooper Standard Holdings Inc. on August 3, 2009. The action related to the tax refunds owed to the Company pursuant to the September 16, 2004 sale agreement of CSA for pre-disposition periods ending December 23, 2004. On March 17, 2010, the Company entered into a settlement agreement with Cooper Standard Holdings, Inc., et al. to resolve the subject proceedings. The approved settlement agreement was docketed by the Court on April 15, 2010 and became final and non-appealable on April 29, 2010. Pursuant to the settlement agreement, CSA paid the

Company approximately \$17,600. Also, CSA must provide a release of the Company from all liability in connection with the Company's guaranty of a lease for certain property in Surgoinsville, Tennessee, or alternatively, cause a letter of credit to be issued for the benefit of the Company in the initial amount of \$7,000. The letter of

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