

COOPER TIRE & RUBBER CO
Form 10-Q
November 02, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

Commission File No. 1-4329

COOPER TIRE & RUBBER COMPANY

(Exact name of registrant as specified in its charter)

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

701 Lima Avenue, Findlay, Ohio 45840
(Address of principal executive offices) (Zip code)

(419) 423-1321
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

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

Number of shares of common stock of registrant outstanding at September 30, 2012: 62,920,783

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, 2011 (Note 1)	Sept. 30, 2012 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 233,710	\$ 271,512
Notes receivable	71,661	51,130
Accounts receivable, less allowances of \$10,622 at 2011 and \$14,040 at 2012	427,782	499,568
Inventories at lower of cost or market:		
Finished goods	294,384	403,303
Work in process	40,899	43,190
Raw materials and supplies	130,110	139,465
	465,393	585,958
Other current assets	65,434	66,201
Total current assets	1,263,980	1,474,369
Property, plant and equipment:		
Land and land improvements	32,432	32,262
Buildings	305,581	305,607
Machinery and equipment	1,739,241	1,845,183
Molds, cores and rings	231,824	232,619
	2,309,078	2,415,671
Less accumulated depreciation and amortization	1,339,975	1,397,443
Net property, plant and equipment	969,103	1,018,228
Goodwill	18,851	18,851
Intangibles, net of accumulated amortization of \$25,759 at 2011 and \$26,874 at 2012	17,352	16,237
Restricted cash	2,475	9,388
Deferred income tax assets	197,580	187,826
Other assets	31,664	30,163
Total assets	\$ 2,501,005	\$ 2,755,062
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	\$ 131,651	\$ 47,688
Accounts payable	339,215	418,780
Accrued liabilities	152,306	228,538
Income taxes payable	6,646	20,943
Current portion of long-term debt	21,199	2,336
Total current liabilities	651,017	718,285

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

Long-term debt	329,496	336,631
Postretirement benefits other than pensions	293,267	299,344
Pension benefits	360,632	335,766
Other long-term liabilities	168,703	187,435
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 at 2011 and at 2012	87,850	87,850
Capital in excess of par value	1,042	
Retained earnings	1,464,392	1,591,656
Cumulative other comprehensive loss	(520,878)	(499,673)
	1,032,406	1,179,833
Less: common shares in treasury at cost (25,551,636 at 2011 and 24,929,509 at 2012)	(454,605)	(442,311)
Total parent stockholders' equity	577,801	737,522
Noncontrolling shareholders' interests in consolidated subsidiaries	120,089	140,079
Total equity	697,890	877,601
Total liabilities and equity	\$ 2,501,005	\$ 2,755,062

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012

(UNAUDITED)

(Dollar amounts in thousands except per-share amounts)

	2011	2012
Net sales	\$ 1,048,602	\$ 1,095,626
Cost of products sold	960,518	897,468
Gross profit	88,084	198,158
Selling, general and administrative	40,872	68,555
Operating profit	47,212	129,603
Interest expense	8,953	7,115
Interest income	829	542
Other income (expense)	(124)	(315)
Income before income taxes	38,964	122,715
Income tax expense	17,003	40,004
Net income	21,961	82,711
Net income attributable to noncontrolling shareholders' interests	4,680	8,598
Net income attributable to Cooper Tire & Rubber Company	\$ 17,281	\$ 74,113
Basic earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.28	\$ 1.18
Diluted earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.27	\$ 1.17
Dividends per share	\$ 0.105	\$ 0.105

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012

(UNAUDITED)

(Dollar amounts in thousands)

	Three Months Ended September 30,	
	2011	2012
Net income	\$ 21,961	\$ 82,711
Other comprehensive income		
Cumulative currency translation adjustments		
Foreign currency translation adjustments	(8,959)	10,346
Financial instruments		
Change in the fair value of derivatives and marketable securities	11,001	(8,023)
Income tax (expense)/benefit on derivative instruments	(921)	2,864
Financial instruments, net of tax	10,080	(5,159)
Postretirement benefit plans		
Amortization of actuarial loss	9,339	11,617
Amortization of prior service credit	(359)	(172)
Income tax expense on postretirement benefit plans	(477)	(4,160)
Foreign currency translation effect	1,961	(4,039)
Postretirement benefit plans, net of tax	10,464	3,246
Other comprehensive income	11,585	8,433
Comprehensive income	33,546	91,144
Less comprehensive income attributable to noncontrolling shareholders' interests	1,886	9,532
Comprehensive income attributable to Cooper Tire & Rubber Company	\$ 31,660	\$ 81,612

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012

(UNAUDITED)

(Dollar amounts in thousands except per-share amounts)

	2011	2012
Net sales	\$ 2,869,134	\$ 3,138,366
Cost of products sold	2,630,816	2,675,875
Gross profit	238,318	462,491
Selling, general and administrative	134,670	189,764
Operating profit	103,648	272,727
Interest expense	27,603	23,973
Interest income	2,399	1,914
Other income	5,524	333
Income before income taxes	83,968	251,001
Income tax expense	29,083	81,650
Net income	54,885	169,351
Net income attributable to noncontrolling shareholders' interests	10,407	21,924
Net income attributable to Cooper Tire & Rubber Company	\$ 44,478	\$ 147,427
Basic earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.72	\$ 2.36
Diluted earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.71	\$ 2.34
Dividends per share	\$ 0.315	\$ 0.315

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012

(UNAUDITED)

(Dollar amounts in thousands)

	Nine Months Ended September 30,	
	2011	2012
Net income	\$ 54,885	\$ 169,351
Other comprehensive income		
Cumulative currency translation adjustments		
Foreign currency translation adjustments	6,877	9,693
Currency loss recognized as part of acquisition of noncontrolling shareholder interest	4,893	
Cumulative currency translation adjustments	11,770	9,693
Financial instruments		
Change in the fair value of derivatives and marketable securities	7,900	(8,129)
Income tax benefit on derivative instruments	(299)	2,958
Financial instruments, net of tax	7,601	(5,171)
Postretirement benefit plans		
Amortization of actuarial loss	28,029	35,020
Amortization of prior service credit	(1,080)	(700)
Actuarial gain from plan amendment		7,707
Pension curtailment gain		(7,460)
Income tax expense on postretirement benefit plans	(1,435)	(12,538)
Foreign currency translation effect	(203)	(3,785)
Postretirement benefit plans, net of tax	25,311	18,244
Other comprehensive income	44,682	22,766
Comprehensive income	99,567	192,117
Less comprehensive income attributable to noncontrolling shareholders' interests	10,455	23,485
Comprehensive income attributable to Cooper Tire & Rubber Company	\$ 89,112	\$ 168,632

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2012

(UNAUDITED)

(Dollar amounts in thousands)

	2011	2012
Operating activities:		
Net income	\$ 54,885	\$ 169,351
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	91,706	95,189
Amortization	1,008	1,005
Deferred income taxes	3,536	5,287
Stock based compensation	3,070	5,912
Change in LIFO inventory reserve	71,713	(35,389)
Amortization of unrecognized postretirement benefits	26,519	34,320
Loss on sale of assets	2,822	
Changes in operating assets and liabilities:		
Accounts and notes receivable	(115,500)	(53,130)
Inventories	(257,241)	(81,817)
Other current assets	31,508	(7,930)
Accounts payable	28,815	79,692
Accrued liabilities	15,686	67,326
Other items	(31,235)	12,258
Net cash (used in) provided by operating activities	(72,708)	292,074
Investing activities:		
Additions to property, plant and equipment	(121,286)	(123,477)
Acquisition of business, net of cash acquired	(17,380)	
Acquisition of assets in Serbia		(18,534)
Proceeds from the sale of assets	3,450	754
Net cash used in investing activities	(135,216)	(141,257)
Financing activities:		
Net payments on short-term debt	(8,539)	(83,501)
Additions to long-term debt	29,835	10,042
Repayments on long-term debt	(600)	(21,771)
Acquisition of noncontrolling shareholder interest	(116,500)	(71)
Payment of dividends to noncontrolling shareholders	(5,729)	(3,495)
Payment of dividends	(19,587)	(19,650)
Issuance of common shares and excess tax benefits on options	4,408	5,177
Net cash used in financing activities	(116,712)	(113,269)
Effects of exchange rate changes on cash	1,842	254
Changes in cash and cash equivalents	(322,794)	37,802
Cash and cash equivalents at beginning of year	413,359	233,710
Cash and cash equivalents at end of period	\$ 90,565	\$ 271,512

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands except per-share amounts)

1. Basis of Presentation and Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements of Cooper Tire & Rubber Company (the Company) 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 considered necessary for a fair presentation have been included. There is a year-round demand for the Company's passenger and truck replacement tires, but sales of light vehicle replacement tires are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of June through November. Operating results for the nine-month period ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012.

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.

Certain reclassifications of prior period amounts have been made to conform to current classifications. On the 2011 Condensed Consolidated Statement of Income, co-op advertising expense has been reclassified from Selling, General & Administrative expense to a reduction of revenue as a component of Net sales. Classification as a reduction of revenue more appropriately reflects the nature of the Company's current co-op advertising programs.

Accounting Pronouncements Recently Adopted

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, Presentation of Comprehensive Income , which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The update eliminates the option to present components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU 2011-12,

Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 . The amendments under this update defer only a portion of ASU 2011-05, and accordingly, the components of other comprehensive income are still required to be presented either in a single continuous statement or in two separate but consecutive statements. This accounting standards update, as amended, was adopted using the two statement approach in the first quarter of 2012 and was applied retrospectively for all prior periods presented. The adoption of this accounting standards update did not have an impact on the Company's results within the consolidated financial statements; however, it did change the financial statement presentation.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The amendments in this update clarify requirements of fair value measurements and related disclosures. This accounting standards update was adopted in the first quarter of 2012 and was applied retrospectively for all prior periods presented. The adoption of this accounting standards update did not have an impact on the Company's consolidated financial statements.

Accounting Pronouncements To be adopted

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which requires an entity to disclose information about offsetting and related arrangements. The amendments in this update are effective for annual and interim periods beginning on or after January 1, 2013, with retrospective application. Although the Company does not expect the adoption of ASU 2011-11 to have a material effect on its consolidated financial statements, it will expand disclosures relating to financial and derivative instruments.

In July 2012, the FASB issued Accounting Standards Update (ASU) 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*, which permits an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. The amendments in this update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, although early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

2. Asset Acquisition

On January 17, 2012, the Company acquired certain assets of Trayal Korporacija in Krusevac, Serbia for approximately \$18,500, including transaction costs. The assets purchased include land, building and certain machinery and equipment. In conjunction with the asset acquisition, the Company established Cooper Tire & Rubber Company Serbia d.o.o. (Cooper Serbia). Cooper Serbia is comprised of the assets acquired from Trayal Korporacija, coupled with those assets acquired through additional capital spending. Cooper Serbia's tire-making operations will complement the Company's operations and product offerings in Europe. The newly formed Serbian entity is included in the International Tire Operations segment. This transaction was accounted for as an asset acquisition by the Company.

During the first quarter of 2012, the Company received approximately \$10,600 of grants from the government of Serbia to be used to fund capital expenditures. The Company does not have to re-pay the grants contingent upon the Company investing approximately \$63,700 (including the original purchase price) over the next three years and maintaining a minimum employment level during the period. The Company intends to satisfy the criteria listed so no funds will need to be re-paid. At September 30, 2012, the Company has recorded \$6,812 of restricted cash on the Condensed Consolidated Balance Sheets representing the proportionate share of the capital expenditures yet to be made. Should the Company fail to meet these criteria, the Company will be required to repay the entire amount of the government grants.

3. Earnings Per Share

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

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

	Three months ended September 30		Nine months ended September 30	
	2011	2012	2011	2012
Numerator				
Numerator for basic and diluted earnings per share -				
Net income attributable to common stockholders	\$ 17,281	\$ 74,113	\$ 44,478	\$ 147,427
Denominator				
Denominator for basic earnings per share - weighted average shares outstanding	62,266	62,561	62,106	62,405
Effect of dilutive securities - stock options and other stock units	576	713	971	637
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	62,842	63,274	63,077	63,042
Basic earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.28	\$ 1.18	\$ 0.72	\$ 2.36
Diluted earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.27	\$ 1.17	\$ 0.71	\$ 2.34

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 1,065 and 429 at September 30, 2011 and 2012, respectively.

4. Fair Value of Financial Instruments

Derivative financial instruments are utilized by the Company to reduce foreign currency exchange risks. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes. The derivative financial instruments include fair value and cash flow hedges of foreign currency exposures. The change in values of the fair value foreign currency hedges offset exchange rate fluctuations on the foreign currency-denominated intercompany loans and obligations. The Company presently hedges exposures in the Euro, Canadian dollar, British pound sterling, Swiss franc, Swedish krona, Norwegian krone, Mexican peso and Chinese yuan generally for transactions expected to occur within the next 12 months. The notional amount of these foreign currency derivative instruments at December 31, 2011 and September 30, 2012 was \$263,944 and \$219,055, respectively. The counterparties to each of these agreements are major commercial banks.

The Company uses foreign currency forward contracts as hedges of the fair value of certain non-U.S. dollar denominated asset and liability positions, primarily accounts receivable and debt. Gains and losses resulting from the impact of currency exchange rate movements on these forward contracts are recognized in the accompanying Consolidated Statements of 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 \$6,009 and \$(2,123) as of December 31, 2011 and September 30, 2012, respectively) are recorded as a separate component of stockholders' equity in the accompanying Consolidated Balance Sheets and reclassified into earnings as the hedged transactions occur.

The Company assesses hedge ineffectiveness quarterly using the hypothetical derivative methodology. In doing so, the Company monitors the actual and forecasted foreign currency sales and purchases versus the amounts hedged to identify any hedge ineffectiveness. Any hedge ineffectiveness is recorded as an adjustment in the accompanying 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 following table presents the location and amounts of derivative instrument fair values in the Condensed Consolidated Balance Sheets:

(assets)/liabilities	December 31, 2011		September 30, 2012	
Derivatives designated as hedging instruments	Accrued liabilities	\$ (6,214)	Accrued liabilities	\$ 2,264
Derivatives not designated as hedging instruments	Accrued liabilities	\$ 345	Accrued liabilities	\$ 200

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)		Amount of Gain (Loss)
		Recognized in Other Comprehensive Income on Derivatives (Effective Portion)	Reclassified from Cumulative Other Comprehensive Income into Income (Effective Portion)	
Derivatives Designated as Cash Flow Hedges				
Three Months Ended September 30, 2011	\$ 8,397	\$ (2,606)	\$ 446	
Three Months Ended September 30, 2012	\$ (4,078)	\$ 3,946	\$ 364	
Nine Months Ended September 30, 2011	\$ 3,492	\$ (4,490)	\$ 356	
Nine Months Ended September 30, 2012	\$ (2,671)	\$ 5,458	\$ 350	

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss)	Amount of Gain (Loss)	
		Recognized in Income on Derivatives	Recognized in Income on Derivatives
Three Months Ended September 30, 2011	Other income	\$ 888	
Three Months Ended September 30, 2012	Other income	\$ 115	
Nine Months Ended September 30, 2011	Other income	\$ 995	
Nine Months Ended September 30, 2012	Other income	\$ 145	

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, 2011 and September 30, 2012, 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.

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

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and September 30, 2012:

	Total Derivative (Assets) Liabilities	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Foreign Exchange Contracts				
December 31, 2011	\$ (5,869)	\$	\$ (5,869)	\$
September 30, 2012	\$ 2,464	\$	\$ 2,464	\$

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

	December 31, 2011		September 30, 2012	
	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Instruments Level (1)	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Instruments Level (1)
Cash and cash equivalents	\$ 233,710	\$ 233,710	\$ 271,512	\$ 271,512
Notes receivable	71,661	71,661	51,130	51,130
Restricted cash	2,475	2,475	9,388	9,388
Notes payable	(131,651)	(131,651)	(47,688)	(47,688)
Current portion of long-term debt	(21,199)	(21,199)	(2,336)	(2,336)
Long-term debt	(329,496)	(325,596)	(336,631)	(355,731)

There were no financial instruments carried at cost at December 31, 2011 or September 30, 2012 for which the fair value measurements include significant other observable inputs (Level 2) or significant unobservable inputs (Level 3).

5. Business Segments

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

	Three months ended September 30		Nine months ended September 30	
	2011	2012	2011	2012
Revenues:				
North American Tire				
External customers	\$ 735,001	\$ 795,976	\$ 1,989,274	\$ 2,212,657
Intercompany	24,779	20,281	77,629	71,906
	759,780	816,257	2,066,903	2,284,563
International Tire				
External customers	313,601	299,650	879,860	925,709
Intercompany	108,246	111,606	301,029	308,644
	421,847	411,256	1,180,889	1,234,353
Eliminations	(133,025)	(131,887)	(378,658)	(380,550)
Net sales	\$ 1,048,602	\$ 1,095,626	\$ 2,869,134	\$ 3,138,366
Segment profit (loss):				
North American Tire	\$ 17,340	\$ 104,830	\$ 42,544	\$ 192,717
International Tire	30,442	35,506	73,814	111,381
Eliminations	356	(3,163)	(2,377)	(7,009)
Unallocated corporate charges	(926)	(7,570)	(10,333)	(24,362)
Operating profit	47,212	129,603	103,648	272,727
Interest expense	8,953	7,115	27,603	23,973
Interest income	829	542	2,399	1,914
Other income (expense)	(124)	(315)	5,524	333
Income before income taxes	\$ 38,964	\$ 122,715	\$ 83,968	\$ 251,001

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 \$442,128 and \$543,025 at December 31, 2011 and September 30, 2012, respectively. These FIFO values have been reduced by approximately \$236,532 and \$201,143 at December 31, 2011 and September 30, 2012, respectively, to arrive at the LIFO value reported on the Condensed Consolidated Balance Sheets. The remaining inventories have been valued under the FIFO or average cost method. All inventories are stated at the lower of cost or market.

7. Stock-Based Compensation

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

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

The following table discloses the amount of stock based compensation expense for the three and nine-month periods ended September 30, 2011 and 2012:

	Three months ended September 30		Nine months ended September 30	
	2011	2012	2011	2012
Stock options	\$ 665	\$ 863	\$ 1,885	\$ 2,506
Stock awards		67		67
Restricted stock units	308	286	906	890
Performance stock units	(242)	1,025	279	2,449
Total stock based compensation	\$ 731	\$ 2,241	\$ 3,070	\$ 5,912

Stock Options

During 2011, executives participating in the 2011 - 2013 Long-Term Incentive Plan were granted 311,670 stock options which will vest one third each year through 2014. 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. 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:

	2011	2012
Risk-free interest rate	2.7%	1.2%
Dividend yield	1.8%	2.7%
Expected volatility of the Company's common stock	0.615	0.644
Expected life in years	6.0	6.0

The weighted average fair value of options granted in 2011 and 2012 was \$11.57 and \$7.33, respectively.

The following table provides details of the stock option activity for the nine months ended September 30, 2012:

	Number of Shares
Outstanding at January 1, 2012	1,737,881
Granted	589,934
Exercised	(584,859)
Expired	(32,800)
Cancelled	(9,697)
Outstanding at September 30, 2012	1,700,459
<i>Exercisable</i>	814,251

Restricted Stock Units (RSUs)

The following table provides details of the nonvested RSU activity for the nine months ended September 30, 2012:

	Number of Restricted Units
Nonvested at January 1, 2012	186,805
Granted	6,000
Vested	(44,906)
Cancelled	(5,067)
Accrued dividend equivalents	2,980
Nonvested at September 30, 2012	145,812

Performance Stock Units (PSUs)

Executives participating in the Company's Long-Term Incentive Plan for the plan year 2010-2012, earn PSUs and cash. Units and cash earned during 2010 and any units and cash earned during 2012 will vest at December 31, 2012. No units or cash were earned in 2011.

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

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

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

Performance stock units outstanding at January 1, 2012	61,450
Accrued dividend equivalents	1,182
Performance stock units outstanding at September 30, 2012	62,632

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

8. Pensions and Postretirement Benefits Other than Pensions

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

	Pension Benefits - Domestic			
	Three months ended September 30 2011	September 30 2012	Nine months ended September 30 2011	September 30 2012
Components of net periodic benefit cost:				
Service cost	\$ 1,925	\$ 2,354	\$ 5,775	\$ 7,061
Interest cost	11,250	10,714	33,750	32,142
Expected return on plan assets	(12,526)	(10,754)	(37,579)	(32,264)
Amortization of actuarial loss	7,575	9,205	22,725	27,614
Net periodic benefit cost	\$ 8,224	\$ 11,519	\$ 24,671	\$ 34,553

	Pension Benefits - International			
	Three months ended September 30 2011	September 30 2012	Nine months ended September 30 2011	September 30 2012
Components of net periodic benefit cost:				
Service cost	\$ 627	\$ 1	\$ 1,885	\$ 753
Interest cost	4,523	4,280	13,600	12,722
Expected return on plan assets	(4,180)	(3,892)	(12,570)	(11,371)
Amortization of prior service cost	(187)		(564)	(184)
Amortization of actuarial loss	1,449	1,643	4,358	5,099
Cooper Avon curtailment gain				(7,460)
Net periodic benefit cost	\$ 2,232	\$ 2,032	\$ 6,709	\$ (441)

	Other Postretirement Benefits			
	Three months ended September 30 2011	September 30 2012	Nine months ended September 30 2011	September 30 2012
Components of net periodic benefit cost:				
Service cost	\$ 775	\$ 1,040	\$ 2,327	\$ 3,121
Interest cost	3,462	3,133	10,385	9,399
Amortization of prior service cost	(172)	(172)	(516)	(516)
Amortization of actuarial loss	315	769	946	2,307
Net periodic benefit cost	\$ 4,380	\$ 4,770	\$ 13,142	\$ 14,311

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

9. Stockholders Equity

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

	Total Parent Stockholders Equity	Noncontrolling Shareholders Interests in Consolidated Subsidiaries	Total Stockholders Equity
Balance at December 31, 2011	\$ 577,801	\$ 120,089	\$ 697,890
Net income	147,427	21,924	169,351
Other comprehensive income	21,205	1,561	22,766
Dividends payable to noncontrolling shareholders		(3,495)	(3,495)
Acquisition of noncontrolling shareholders' interest	(71)		(71)
Stock compensation plans, including tax benefit of \$1,764	10,810		10,810
Cash dividends \$.315 per share	(19,650)		(19,650)
Balance at September 30, 2012	\$ 737,522	\$ 140,079	\$ 877,601

10. 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 Sept. 30,		Nine months ended Sept. 30,	
	2011	2012	2011	2012
Net income attributable to noncontrolling shareholders' interests	\$ 4,680	\$ 8,598	\$ 10,407	\$ 21,924
Other comprehensive income:				
Currency translation adjustments	(2,794)	934	48	1,561
Comprehensive income attributable to noncontrolling shareholders' interests	\$ 1,886	\$ 9,532	\$ 10,455	\$ 23,485

11. Product Warranty Liabilities

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

	2011	2012
Reserve at January 1	\$ 24,924	\$ 27,400
Additions	27,414	19,656
Payments	(22,545)	(15,430)
Reserve at September 30	\$ 29,793	\$ 31,626

12. Contingent Liabilities

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

The fact that the Company is a defendant in products liability lawsuits is not surprising given the current litigation climate, which is largely confined to the United States. However, the fact that the Company is subject to claims does not indicate that there is a quality issue with the Company's tires. The Company sells approximately 30 to 40 million passenger, light truck, SUV, radial medium truck and motorcycle tires per year in North America. The Company estimates that approximately 300 million Company-produced tires—made up of thousands of different specifications—are still on the road in North America. While tire disablements do occur, it is the Company's and the tire industry's experience that the vast majority of tire failures relate to service-related conditions, which are entirely out of the Company's control—such as failure to maintain proper tire pressure, improper maintenance, road hazard and excessive speed.

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

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

The Company determines its reserves using the number of incidents expected during a year. During the third quarter of 2012, the Company increased its products liability reserve by \$21,338. The addition of another year of self-insured incidents accounted for \$12,609 of this increase. The Company revised its estimates of future settlements for unasserted and premature claims. These revisions increased the reserve by \$2,312. Finally, changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by \$6,417.

During the first nine months of 2012, the Company increased its products liability reserve by \$60,633. The addition of another year of self-insured incidents accounted for \$36,703 of this increase. The Company revised its estimates of future settlements for unasserted and premature claims. These revisions increased the reserve by \$7,701. Finally, changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by \$16,229.

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 \$10,638 during the third quarter of 2012 to resolve cases and claims and has paid \$45,150 through the first nine months of 2012. The Company's products liability reserve balance at December 31, 2011 totaled \$207,353 (the current portion of \$58,476 is included in Accrued liabilities and the long-term portion is included in Other long-term liabilities on the Condensed Consolidated Balance Sheets) and the balance at September 30, 2012 totaled \$222,836 (current portion of \$59,979).

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. Legal costs are expensed as incurred and products liability insurance costs are amortized over coverage periods.

For the three-month periods ended September 30, 2011 and 2012, products liability expenses totaled \$20,514 and \$27,906, respectively. For the nine-month periods ended September 30, 2011 and 2012, products liability expenses totaled \$73,028 and \$81,325, respectively. Products liability expenses are included in cost of goods sold in the Condensed Consolidated Statements of Income.

13. Income Taxes

For the three months ended September 30, 2012, the Company recorded income tax expense of \$40,004 (effective rate of 31.0 percent) as compared to \$17,003 (effective rate of 23.0 percent) for the comparable period in 2011. For the nine-month period ended September 30, 2012, the Company recorded income tax expense of \$81,650 (effective rate of 31.7 percent) as compared to \$29,083 (effective rate of 23.3 percent) for the comparable period in 2011. The three and nine-month period income tax expense is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. This rate differs from the U.S. federal statutory rate of 35 percent primarily because of the projected mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances. The effective income tax rate for the three months ended September 30, 2011 differs from the three month period ended September 30, 2012 due to the U.S. valuation allowance that was released at December 31, 2011, and certain tax holidays in the Peoples Republic of China (PRC) in effect at that time. In addition, the three and nine-month period income tax expense is higher primarily due to increased pretax earnings. Tax expense for the three and nine-month periods ended September 30, 2012 included a discrete tax expense of \$1,937 and \$2,056, respectively, primarily related to the unfavorable impact on deferred tax assets from a U.K. statutory tax rate reduction enacted during the period. For the three and nine-month periods ended September 30, 2011, income tax expense included a discrete tax expense of \$8,052 and \$9,486, respectively. This primarily includes recording of valuation allowance adjustments for U. S. return to provision timing differences and the unfavorable impact on deferred tax assets from a U.K. statutory tax rate reduction.

The Company continues to maintain a valuation allowance pursuant to ASC 740, Accounting for Income Taxes, against a portion of its U.S. and non-U.S. deferred tax asset position, as it cannot assure the utilization of these assets before they expire. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a capital loss carryforward by a valuation allowance of \$19,838. In addition, the Company has recorded valuation allowances of \$9,727 relating to non-U.S. net operating losses of \$8,131 and foreign tax credits of \$1,596 for a total valuation allowance of \$29,564. In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when they are deemed to be realizable.

The Company maintains an ASC 740-10, Accounting for Uncertainty in Income Taxes, liability for unrecognized tax benefits for permanent and temporary book/tax differences. At September 30, 2012, the Company's liability, exclusive of interest, totals approximately \$984. 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 September 30			Nine months ended September 30		
	2011	Change	2012	2011	Change	2012
Revenues:						
North American Tire						
External customers	\$ 735.0	8.3%	\$ 796.0	\$ 1,989.3	11.2%	\$ 2,212.7
Intercompany	24.8	-18.1%	20.3	77.6	-7.3%	71.9
	759.8	7.4%	816.3	2,066.9	10.5%	2,284.6
International Tire						
External customers	313.6	-4.5%	299.6	879.9	5.2%	925.7
Intercompany	108.2	3.1%	111.6	301.0	2.5%	308.6
	421.8	-2.5%	411.2	1,180.9	4.5%	1,234.3
Eliminations	(133.0)	-0.8%	(131.9)	(378.7)	0.5%	(380.5)
Net sales	\$ 1,048.6	4.5%	\$ 1,095.6	\$ 2,869.1	9.4%	\$ 3,138.4
Segment profit (loss)						
North American Tire	\$ 17.3	505.8%	\$ 104.8	\$ 42.5	353.4%	\$ 192.7
International Tire	30.4	16.8%	35.5	73.8	50.9%	111.4
Eliminations	0.4	-875.0%	(3.1)	(2.4)	191.7%	(7.0)
Unallocated corporate charges	(0.9)	744.4%	(7.6)	(10.3)	136.9%	(24.4)
Operating profit	47.2	174.6%	129.6	103.6	163.2%	272.7
Interest expense	8.9	-20.2%	7.1	27.6	-13.4%	23.9
Interest income	0.8	-37.5%	0.5	2.4	-20.8%	1.9
Other income (expense)	(0.1)	200.0%	(0.3)	5.5	-94.5%	0.3
Income before income taxes	39.0	214.6%	122.7	83.9	199.2%	251.0
Income tax expense	17.0	135.3%	40.0	29.0	181.7%	81.7
Net Income	22.0	275.9%	82.7	54.9	208.4%	169.3
Noncontrolling shareholders' interests	4.7	83.0%	8.6	10.4	110.6%	21.9
Net income attributable to						
Cooper Tire & Rubber Company	\$ 17.3	328.3%	\$ 74.1	\$ 44.5	231.2%	\$ 147.4
Basic earnings per share	\$ 0.28		\$ 1.18	\$ 0.72		\$ 2.36
Diluted earnings per share	\$ 0.27		\$ 1.17	\$ 0.71		\$ 2.34

Consolidated net sales for the three-month period ended September 30, 2012 were \$47 million higher than the comparable period one year ago. The increase in net sales for the third quarter of 2012 compared with the third quarter of 2011 was the result of higher unit volumes (\$52 million) and favorable exchange translation (\$4 million), partially offset by lower pricing and mix (\$9 million).

Operating profit in the third quarter of 2012 increased \$82 million from the third quarter of 2011. Lower raw material costs (\$144 million), higher unit volumes (\$9 million) and improved manufacturing efficiencies (\$7 million) contributed to the higher operating profit for the quarter. Lower pricing and mix (\$36 million), increased selling, general and administrative costs (\$28 million) and increased products liability charges (\$7 million) reduced the Company's operating profit. Other operating costs were unfavorable (\$7 million), including higher pension expense. Higher incentive compensation costs, resulting from higher profits, affected selling, general and administrative costs and other costs.

Consolidated net sales for the nine-month period ended September 30, 2012, were \$269 million higher than the comparable period one year ago. The increase in net sales for the first nine months of 2012 compared to the first nine months of 2011 was the result of higher unit volumes (\$185 million), favorable pricing and mix (\$61 million) and favorable exchange translation (\$23 million).

Operating profit in the first nine months of 2012 increased \$169 million from the first nine months of 2011. Lower raw material costs (\$203 million), favorable pricing and mix (\$33 million) and increased unit volumes (\$27 million) contributed to the higher operating profit for the first nine months of 2012. Increased selling, general and administrative costs (\$56 million) and higher products liability charges (\$8 million) partially offset previously described increases to the Company's operating profit. Additionally, the Company experienced higher manufacturing costs (\$16 million) for the nine-month period ended September 30, 2012, which included \$29 million of first quarter costs related to the labor issues at the Findlay, Ohio manufacturing facility partially offset by efficiencies. Other operating costs were unfavorable (\$21 million), including increased pension expenses and start-up costs related to the Company's operations in Serbia. Higher incentive compensation costs, resulting from higher profits, affected selling, general and administrative costs and other costs. The International Tire Operations segment had a \$7 million pension curtailment gain in the second quarter.

The Company experienced decreases in the costs of certain of its principal raw materials in the first nine months of 2012 compared with the first nine months of 2011. 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 \$28 million and \$21 million in the third quarter of 2012 and 2011, respectively. Products liability expenses totaled \$81 million and \$73 million in the first nine months of 2012 and 2011, respectively. The change in the expense results from adjustments to existing reserves based on the Company's quarterly comprehensive review of outstanding claims. Additional information related to the Company's accounting for products liability costs appears in the Notes to the Condensed Consolidated Financial Statements.

Selling, general, and administrative expenses were \$69 million in the third quarter of 2012 (6.3 percent of net sales) and \$41 million in the third quarter of 2011 (3.9 percent of net sales). For the nine-month period ended September 30, 2012, selling, general and administrative expenses were \$190 million (6.0 percent of net sales) compared to \$135 million (4.7 percent of net sales) for the comparable period of 2011. The change in selling, general and administrative expenses was due to increased incentive based compensation, increases in accruals for stock-based liabilities and additional selling costs associated with higher sales levels, coupled with increased advertising spending and investment in the Company's distribution network in the Chinese market.

Interest expense decreased \$2 million in the third quarter of 2012 from the third quarter of 2011, and decreased \$4 million on a year-to-date basis when compared to the comparable period of 2011. The decrease is primarily a result of lower debt levels. Interest income has remained relatively constant during both the third quarter and on a year-to-date basis when compared to the comparable periods of 2011.

Other income decreased \$5 million in the first nine months of 2012 compared to the first nine months of 2011. In connection with its increased investment in Corporacion de Occidente SA de CV (COOCSA) in the first quarter of 2011, the Company recorded a gain of \$5 million on its original investment, which represented the excess of the fair value of approximately \$34 million over the carrying value of the investment as of the transaction date.

For the quarter ended September 30, 2012, the Company recorded income tax expense of \$40 million (effective rate of 31.0 percent) as compared to \$17 million (effective rate of 23.0 percent) for the comparable period in 2011. For the nine-month period ended September 30, 2012, the Company recorded income tax expense of \$82 million (effective rate of 31.7 percent) as compared to \$29 million (effective rate of 23.3 percent) for the comparable period in 2011. The 2012 quarter and nine-month period income tax expense is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. This rate differs from the U.S. federal statutory rate of 35 percent primarily because of the projected mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances. The effective income tax rate for the quarter ended September 30, 2011 differs from the current quarter due to the U.S. valuation allowance that was released at December 31, 2011, and certain PRC tax holidays in effect at that time. In addition the current quarter and nine-month period income tax expense is higher primarily due to increased pretax earnings. Tax expense for the current quarter and nine-month period included a discrete tax expense of \$2 million for each period, primarily related to the unfavorable impact on deferred tax assets from a U.K. statutory tax rate reduction enacted during the period. For the quarter and nine-month period ended September 30, 2011, income tax expense included a discrete tax benefit of \$8 million and \$10 million, respectively. This primarily includes recording of valuation allowance adjustments for U. S. return to provision timing differences and the unfavorable impact on deferred tax assets from a U.K. statutory tax rate reduction.

The Company continues to maintain a valuation allowance pursuant to ASC 740, Accounting for Income Taxes, against a portion of its U.S. and non-U.S. deferred tax asset position, as it cannot assure the utilization of these assets before they expire. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a capital loss carryforward by a valuation allowance of \$20 million. In addition, the Company has recorded valuation allowances of \$10 million relating to non-U.S. net operating losses of \$8 million and foreign tax credits of \$2 million for a total valuation allowance of \$30 million. In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when they are deemed to be realizable.

North American Tire Operations Segment

(Dollar amounts in millions)	Three months ended September 30			Nine months ended September 30		
	2011	Change	2012	2011	Change	2012
Net sales	\$ 759.8	7.4%	\$ 816.3	\$ 2,066.9	10.5%	\$ 2,284.6
Operating profit	\$ 17.3	505.8%	\$ 104.8	\$ 42.5	353.4%	\$ 192.7
Operating margin	2.3%	10.5 points	12.8%	2.1%	6.3 points	8.4%
United States unit shipments changes:						
Passenger tires						
Segment		2.6%			3.4%	
RMA members		-7.5%			-5.1%	
Total Industry		-4.7%			-2.9%	
Light truck tires						
Segment		19.8%			10.8%	
RMA members		0.9%			-5.3%	
Total Industry		5.9%			-2.0%	
Total light vehicle tires						
Segment		5.7%			4.8%	
RMA members		-6.4%			-5.2%	
Total Industry		-3.4%			-2.7%	
Total segment unit sales change		3.8%			4.9%	

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

Overview

The North American Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. 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 and two original equipment contracts for medium truck tires.

Sales

Net sales of the North American Tire Operations segment increased by \$56 million, or 7.4 percent from the sales levels achieved in the third quarter of 2011. The increase was the result of favorable pricing and mix (\$30 million) and increased unit volumes (\$26 million). Unit sales for the segment increased 3.8 percent compared with prior-year third quarter. In the U.S., the segment's unit shipments of total light vehicle tires increased 5.7 percent in the third quarter of 2012 compared with the third quarter of 2011. This increase compared to a 6.4 percent decrease in total light vehicle shipments experienced by all members of the Rubber Manufacturers Association and a 3.4 percent decrease for the total industry (which includes an estimate for non-RMA members). In the third quarter, the segment outperformed the industry in the unit shipments of broadline and value tires, as well as ultra-high performance, light truck and SUV tires. Commercial tire shipments of the Roadmaster brand, which are excluded from light vehicle shipments, were up 4.2% for the quarter compared with the third quarter of 2011, also outperforming the industry.

Net sales of the North American Tire Operations segment increased by \$218 million, or 10.5 percent, in the first nine months of 2012 from the same period in 2011. The increase in sales was the result of favorable pricing and mix (\$115 million) and increased unit volumes (\$103 million). Unit sales for the segment increased 4.9 percent compared with the prior-year nine month period. In the United States, the segment's unit shipments of total light vehicle tires increased 4.8 percent in the first nine months of 2012 compared with the same period in 2011. This increase compared to a 5.2 percent decrease in total light vehicle shipments experienced by all members of the RMA and a 2.7 percent decrease for the total industry for the first nine months.

Operating Profit

The North American Tire Operations segment operating profit increased \$87 million in the third quarter of 2012 compared to the third quarter of 2011. Operating profit increased as a result of lower raw material costs (\$102 million), improved manufacturing efficiencies (\$9 million) and increased unit volumes (\$6 million). Selling, general and administrative charges, including higher advertising spending, were higher (\$14 million), products liability charges increased (\$7 million) and price and mix decreased (\$1 million). Additionally, other operating costs were unfavorable (\$7 million) including increased pension expense. Higher incentive compensation costs, resulting from higher profits, affected selling, general and administrative costs and other costs.

Operating profit for the segment increased \$150 million in the first nine months of 2012 from the first nine months of 2011. The increase in operating profit was driven by lower raw material costs (\$119 million), favorable price and mix (\$75 million) and increased unit volumes (\$15 million). The segment experienced higher manufacturing costs (\$12 million) for the nine-month period ended September 30, 2012, which included \$29 million of first quarter costs related to the labor issues at the Findlay, Ohio manufacturing facility partially offset by efficiencies. Selling, general and administrative charges, including higher advertising spending, were unfavorable (\$21 million) and products liability charges increased (\$8 million). Additionally, other operating costs were higher (\$16 million) including increased pension expense. Higher incentive compensation costs, resulting from higher profits, affected selling, general and administrative costs and other costs.

The segment's internally calculated raw material index of 229 during the quarter was a decrease of 17.0 percent from the same period of 2011 and a decrease of 12.7 percent sequentially from the quarter ended June 30, 2012.

International Tire Operations Segment

(Dollar amounts in millions)	Three months ended September 30			Nine months ended September 30		
	2011	Change	2012	2011	Change	2012
Net sales	\$ 421.8	-2.5%	\$ 411.2	\$ 1,180.9	4.5%	\$ 1,234.3
Operating profit	\$ 30.4	16.8%	\$ 35.5	\$ 73.8	50.9%	\$ 111.4
Operating margin	7.2%	1.4 points	8.6%	6.2%	2.8 points	9.0%
Unit sales change		12.9%			13.1%	

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 the global market. The Cooper Chengshan Tire joint venture manufactures and markets radial and bias medium truck tires as well as passenger and light truck tires for the global market. Cooper Kunshan Tire currently manufactures light vehicle tires and, under an agreement with the government of the PRC, these tires will be exported to markets outside of the PRC through 2012. The Serbian entity manufactures light vehicle tires 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 by \$11 million, or 2.5 percent, in the third quarter of 2012 compared to the third quarter of 2011. Higher unit volumes (\$45 million) and favorable currency translation (\$4 million) were more than offset by lower pricing and mix (\$60 million). The segment's increase in volume was primarily the result of higher unit sales of truck and bus radial tires, as well as continued efforts to expand distribution and supply of light vehicle tires within the segment. Weakened industry conditions in the European markets partially offset these increases.

Net sales of the International Tire Operations segment increased by \$53 million, or 4.5 percent, in the first nine months of 2012 compared to the same period in 2011. The segment achieved increased unit volumes (\$145 million) and experienced favorable exchange translation (\$23 million), which were partially offset by lower pricing and mix (\$115 million).

Operating Profit

International Tire operating profit in the third quarter of 2012 was \$5 million higher than in the same period of 2011. The increase in operating profit was due to lower raw material costs (\$64 million) and higher unit volumes (\$3 million). These improvements were partially offset by lower pricing and mix (\$53 million) and decreased manufacturing efficiencies (\$2 million). Selling, general and administrative expenses were higher (\$7 million) as a result of higher selling costs associated with increased sales volume, higher advertising spend and additional investments in the distribution network in the Chinese market.

Operating profit for the segment in the first nine months of 2012 was \$38 million higher than the same period for 2011. The increase in operating profit was due to lower raw material costs (\$126 million) and increased unit volumes (\$12 million). These improvements were partially offset by lower pricing and mix (\$80 million) and decreased manufacturing efficiencies (\$4 million). Selling, general and administrative charges were higher (\$20 million) as a result of higher selling costs associated with increased sales volume, higher advertising spend and additional investments in the distribution network in the Chinese market. Start-up costs related to the Company's operations in Serbia (\$5 million) reduced operating profit in the first nine months of 2012. The segment had a \$7 million pension curtailment gain in the second quarter of 2012.

The International Tire Operations segment experienced decreases in the costs of certain of its raw materials in the first nine months of 2012 as compared to the first nine months of 2011. Raw material costs per unit sold have decreased 13.2% for the nine months ended September 30, 2012 as compared to the same period in 2011.

Outlook for Company

For the remainder of 2012, the Company expects uncertainty to persist in the global economic environment. Demand for tires will vary by region and likely remain sluggish compared to historical growth rates. Through its actions to launch new products and deliver exceptional value, the Company believes that it can perform at or above the industry growth rates.

Capital investments are expected to be between \$180 million and \$210 million in 2012. This includes investments in an ERP system and investments to ramp up production at the Serbian plant acquired in January 2012.

The Company's raw material prices in the fourth quarter are expected to be approximately the same as the third quarter of 2012. Raw material prices are forecasted to generally trend higher on a longer term basis but persistent volatility can make it difficult to accurately predict these movements.

The Company expects its effective tax rate for 2012 will most likely be between 29 percent and 34 percent.

The Company's focus in 2012 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. While the Company's record of achievements gives it confidence that it can successfully compete in a volatile economy and industry, the uncertain global economic environment causes it to be cautious about the near term future.

Liquidity and Capital Resources

Generation and uses of cash Net cash provided by operating activities was \$292 million during the first nine months of 2012 compared to net cash used in operating activities of \$73 million during the first nine months of 2011. The value of inventories increased at a lower rate than historical increases due in part to lower raw material prices and lower unit growth.

Inventories increased at a much lower rate than historical increases due in part to strong sales and the labor situation in Findlay in the first quarter of 2012.

Net cash used in investing activities during the first nine months of 2011 and 2012 reflect capital expenditures of \$121 million and \$123 million, respectively. During the first quarter of 2011, the Company invested \$17 million in COOCSA, increasing its ownership percentage to approximately 58 percent, and because of the increase in voting rights, began consolidating the results of those operations. During the first quarter of 2012, the Company acquired assets in Serbia for approximately \$19 million.

During the first nine months of 2011 and 2012, the Company repaid \$9 million and \$84 million of short-term notes, respectively. In both 2011 and 2012, the Company borrowed additional funds using long-term debt and in 2012, the Company repaid \$22 million of maturing long-term debt. In the first quarter of 2011, the Company paid \$117 million to purchase the remaining 50 percent ownership interest in Cooper Kunshan.

Dividends paid on the Company's common shares in each of the first nine months of 2011 and 2012 were \$20 million. During the first nine months of 2011 and 2012, the Company paid \$6 million and \$3 million in dividends to noncontrolling shareholders in the Cooper Chengshan joint venture, respectively.

Available cash, credit facilities and contractual commitments At September 30, 2012, the Company had cash and cash equivalents of \$272 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. During the third quarter of 2012, the maturity of the facility was extended to June 2015. These credit facilities remain undrawn, other than to secure letters of credit, and have no significant financial covenants until available credit is less than specified amounts. The Company's additional borrowing capacity based on eligible collateral through use of its credit facility with its bank group and its accounts receivable securitization facility at September 30, 2012 was \$279 million.

The Company's affiliated operations in Asia have annual renewable unsecured credit lines and do not contain financial covenants. The additional borrowing capacity on the Asian credit lines totaled \$319 million at September 30, 2012.

The Company expects capital expenditures for 2012 to be in the \$180 to \$210 million range.

The Company believes its cash and cash equivalents on hand along with cash from operating cash flows and credit facilities will be adequate to fund its needs, including working capital requirements, projected capital expenditures, including its portion of capital expenditures in partially-owned subsidiaries, and dividend goals.

The following table summarizes long-term debt at September 30, 2012:

Parent company	
8% unsecured notes due December 2019	\$ 173.6
7.625% unsecured notes due March 2027	116.9
Capitalized leases and other	9.3
	299.8
Consolidated Subsidiaries	
6.10% to 6.65% unsecured notes due in 2014	29.3
6.65% unsecured notes due in 2015	3.1
6.79% unsecured notes due in 2016	6.7
	39.1
Total debt	338.9
Less current maturities	2.3
	\$ 336.6

Contingencies

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

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

Forward-Looking Statements

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

the failure to achieve expected sales levels;

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

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;

changes in interest or foreign exchange rates;

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

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

consolidation among the Company's competitors or customers;

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

litigation brought against the Company, including products liability claims, which could result in material damages against the Company, as well as potential increases in legal fees due to a more active trial docket;

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

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

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

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;

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

changes to tariffs on certain tires imported into the United States from the People's Republic of China or the imposition of new tariffs or trade restrictions;

government regulatory and legislative initiatives including environmental and healthcare matters;

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

technology advancements;

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

failure to attract or retain key personnel;

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;

changes in the Company's relationship with joint-venture partners;

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

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

inability to use deferred tax assets.

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

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 in the Company's other periodic filings with the U. S. Securities and Exchange Commission (SEC).

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at September 30, 2012, from those detailed in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2011.

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 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 September 30, 2012 (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 September 30, 2012 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Part II. OTHER INFORMATION

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 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 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.

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

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

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

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

The Company 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'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.

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 low-cost 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 from the PRC to the U.S. expired. The Company's sales and profit in related segments could be significantly impacted.

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.

Clean oil directive number 2005/69/EC in the European Union (EU) was effective January 1, 2010, and requires all tires manufactured after this date and sold in the EU to use non-aromatic oils. The Company is in compliance with this directive. Additional countries may legislate similar clean oil requirements, which could increase the cost of manufacturing the Company's products.

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 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.

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.

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

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

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

The Company may fail to 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 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 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 recently 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.

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. Although the Company believes that its relations with its employees are generally good, the Company cannot provide assurance that it will be able to successfully maintain its good relations with its employees at all times.

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. In addition, the Company recently completed the acquisition of certain assets of a manufacturing facility in Serbia. 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. However, there are specific additional 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.

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 net deferred tax assets recorded on the balance sheet. The Company maintains a valuation allowance pursuant to ASC 740, Accounting for Income Taxes, on a small portion of its 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 asset may 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 relate 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 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, especially in the U.S., and adverse business conditions 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)(i) Fifth Amendment to Amended and Restated Receivables Purchase Agreement, dated as of August 10, 2012, by and among Cooper Tire & Rubber Company, Cooper Receivables LLC, Market Street Funding LLC and PNC Bank, National Association is incorporated herein by reference from Exhibit (10)(1) of the Company Form 8-K dated August 13, 2012
- (31.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (31.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32) Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (101.INS) XBRL Instance Document
- (101.SCH) XBRL Taxonomy Extension Schema Document
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase Document
- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document
- (101.LAB) XBRL Taxonomy Extension Label Linkbase Document
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

COOPER TIRE & RUBBER COMPANY

/s/ B. E. Hughes
B. E. Hughes

Vice President and Chief Financial Officer

(Principal Financial Officer)

/s/ R. W. Huber
R. W. Huber
Director of External Reporting

(Principal Accounting Officer)

November 2, 2012

(Date)