

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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
(Address of principal executive offices)

45840
(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 March 31, 2012: 62,314,272

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)	March 31, 2012 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 233,710	\$ 257,644
Notes receivable	71,661	77,583
Accounts receivable, less allowances of \$10,622 at 2011 and \$11,150 at 2012	427,782	480,035
Inventories at lower of cost or market:		
Finished goods	294,384	319,541
Work in process	40,899	47,703
Raw materials and supplies	130,110	124,063
	465,393	491,307
Other current assets	65,434	66,547
Total current assets	1,263,980	1,373,116
Property, plant and equipment:		
Land and land improvements	32,432	32,559
Buildings	305,581	306,035
Machinery and equipment	1,739,241	1,797,489
Molds, cores and rings	231,824	236,630
	2,309,078	2,372,713
Less accumulated depreciation and amortization	1,339,975	1,373,577
Net property, plant and equipment	969,103	999,136
Goodwill	18,851	18,851
Intangibles, net of accumulated amortization of \$25,759 at 2011 and \$26,131 at 2012	17,352	16,981
Restricted cash	2,475	10,199
Deferred income taxes	197,580	193,480
Other assets	31,664	29,091
Total assets	\$ 2,501,005	\$ 2,640,854
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	\$ 131,651	\$ 140,816
Accounts payable	339,215	408,353
Accrued liabilities	152,306	186,020
Income taxes	6,646	8,534
Current portion of long-term debt	21,199	11,367
Total current liabilities	651,017	755,090
Long-term debt	329,496	334,810
Postretirement benefits other than pensions	293,267	294,942

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

Pension benefits	360,632	355,450
Other long-term liabilities	168,703	170,368
Equity:		
Preferred stock, \$1 par value; 5,000,000 shares authorized; none issued Common stock, \$1 par value; 300,000,000 shares authorized; 87,850,292 shares issued	87,850	87,850
Capital in excess of par value	1,042	2,290
Retained earnings	1,464,392	1,479,411
Cumulative other comprehensive loss	(520,878)	(510,443)
	1,032,406	1,059,108
Less: common shares in treasury at cost (25,551,636 at 2011 and 25,536,020 at 2012)	(454,605)	(454,295)
Total parent stockholders' equity	577,801	604,813
Noncontrolling shareholders' interests in consolidated subsidiaries	120,089	125,381
Total equity	697,890	730,194
Total liabilities and equity	\$ 2,501,005	\$ 2,640,854

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Dollar amounts in thousands except per-share amounts)

	Three months ended March 31,	
	2011	2012
Net sales	\$ 901,794	\$ 984,258
Cost of products sold	820,834	878,829
Gross profit	80,960	105,429
Selling, general and administrative	48,777	57,719
Operating profit	32,183	47,710
Interest expense	9,421	8,475
Interest income	(669)	(651)
Other income	(5,505)	(465)
Income before income taxes	28,936	40,351
Income tax expense	10,459	12,301
Net income	18,477	28,050
Net income attributable to noncontrolling shareholders' interests	2,803	6,482
Net income attributable to Cooper Tire & Rubber Company	\$ 15,674	\$ 21,568
Basic earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.25	\$ 0.35
Diluted earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.25	\$ 0.34
Dividends per share	\$ 0.105	\$ 0.105

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Dollar amounts in thousands)

	Three Months Ended March 31,	
	2011	2012
Net income	\$ 18,477	\$ 28,050
Other comprehensive income		
Cumulative currency translation adjustments		
Foreign currency translation adjustments	9,470	11,407
Currency loss recognized as part of acquisition of noncontrolling shareholder interest	4,893	
Cumulative currency translation adjustments	14,363	11,407
Financial instruments		
Change in the fair value of derivatives and marketable securities	(3,138)	(5,494)
Income tax benefit on derivative instruments	326	1,969
Financial instruments, net of tax	(2,812)	(3,525)
Postretirement benefit plans		
Amortization of actuarial loss	9,332	11,783
Amortization of prior service credit	(360)	(356)
Income tax provision on postretirement benefit plans	(475)	(4,155)
Foreign currency translation effect	(2,248)	(2,415)
Postretirement benefit plans, net of tax	6,249	4,857
Other comprehensive income	17,800	12,739
Comprehensive income	36,277	40,789
Less comprehensive income attributable to noncontrolling shareholders' interests	4,432	8,786
Comprehensive income attributable to Cooper Tire & Rubber Company	\$ 31,845	\$ 32,003

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollar amounts in thousands)

	Three Months ended March 31,	
	2011	2012
Operating activities:		
Net income	\$ 18,477	\$ 28,050
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	29,658	31,769
Amortization	337	335
Deferred income taxes	993	2,506
Stock based compensation	979	1,391
Change in LIFO inventory reserve	60,448	8,801
Amortization of unrecognized postretirement benefits	8,829	11,427
Loss on sale of assets	2,694	
Changes in operating assets and liabilities:		
Accounts and notes receivable	(43,827)	(56,638)
Inventories	(136,086)	(30,477)
Other current assets	4,914	(9,273)
Accounts payable	12,506	67,940
Accrued liabilities	29,485	28,769
Other items	(30,866)	(2,377)
Net cash provided by (used in) operating activities	(41,459)	82,223
Investing activities:		
Additions to property, plant and equipment	(35,903)	(37,062)
Acquisition of business, net of cash acquired	(17,380)	
Acquisition of assets in Serbia		(18,534)
Proceeds from the sale of assets	3,450	
Net cash used in investing activities	(49,833)	(55,596)
Financing activities:		
Net borrowings of (payments on) short-term debt	(20,822)	8,317
Additions to long-term debt	7,625	6,927
Repayments of long-term debt		(11,445)
Acquisition of noncontrolling shareholder interest	(116,500)	
Payment of dividends	(6,514)	(6,543)
Issuance of common shares and excess tax benefits on options	2,790	176
Net cash used in financing activities	(133,421)	(2,568)
Effects of exchange rate changes on cash	(161)	(125)
Changes in cash and cash equivalents	(224,874)	23,934
Cash and cash equivalents at beginning of year	413,359	233,710
Cash and cash equivalents at end of period	\$ 188,485	\$ 257,644

See accompanying notes.

COOPER TIRE & RUBBER COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands except per-share amounts)

1. Basis of Presentation and Consolidation

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

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 will be 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 Cooper Europe's operations and product offerings. 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 grant contingent upon the Company investing approximately \$63,700 (including the original \$18,500 from above) 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 March 31, 2012, the Company has recorded \$7,700 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 grant.

3. Earnings Per Share

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

	Three months ended March 31,	
	2011	2012
Numerator		
Numerator for basic and diluted earnings per share Net income attributable to common stockholders	\$ 15,674	\$ 21,568
Denominator		
Denominator for basic earnings per share weighted average shares outstanding	61,850	62,310
Effect of dilutive securities stock options and other stock units	1,335	654
Denominator for diluted earnings per share adjusted weighted average share outstanding	63,185	62,964
Basic earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.25	\$ 0.35
Diluted earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.25	\$ 0.34

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 8,000 and 886,152 in 2011 and 2012, respectively. These options could be dilutive in the future depending on the performance of the Company's stock.

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 March 31, 2012 was \$263,944 and \$286,291, respectively. The counterparties to each of these agreements are major commercial banks.

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

Foreign currency forward contracts are also used to hedge variable cash flows associated with forecasted sales and purchases denominated in currencies that are not the functional currency of certain entities. The forward contracts have maturities of less than twelve months pursuant to the Company's policies and hedging practices. These forward contracts meet the criteria for and have been designated as cash flow hedges. Accordingly, the effective portion of the change in fair value of such forward contracts (approximately \$6,009 and \$515 as of December 31, 2011 and March 31, 2012, respectively) are recorded as a separate component of stockholders' equity in the accompanying Condensed Consolidated Balance Sheets and reclassified into earnings as the hedged transactions occur.

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

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

The following table presents the location and amounts of derivative instrument fair values in the Condensed Consolidated Balance Sheets:

(assets)/liabilities	December 31, 2011		March 31, 2012	
Derivatives designated as hedging instruments	Accrued liabilities	\$ (6,214)	Accrued liabilities	\$ (509)
Derivatives not designated as hedging instruments	Accrued liabilities	\$ 345	Accrued liabilities	\$ (119)

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)	
		Reclassified from Cumulative Other Comprehensive Loss into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)
Designated as Cash Flow Hedges	Recognized in Other Comprehensive Income on Derivatives (Effective Portion)		
Three Months Ended March 31, 2011	\$ (4,471)	\$ (1,318)	\$ (114)
Three Months Ended March 31, 2012	\$ (1,952)	\$ 3,542	\$ 212

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives	
		2011	2012
Foreign exchange contracts	Other income	\$ 129	\$ 464

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 March 31, 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.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Instruments Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Foreign Exchange Contracts				
December 31, 2011	\$ (5,869)		\$ (5,869)	
March 31, 2012	\$ (628)		\$ (628)	

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

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

	December 31, 2011			
	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Instruments Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Cash and cash equivalents	\$ 233,710	\$ 233,710	\$	\$
Notes receivable	71,661	71,661		
Notes payable	(131,651)	(131,651)		
Current portion of long-term debt	(21,199)	(21,199)		
Long-term debt	(329,496)	(325,596)		

	March 31, 2012			
	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Instruments Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Cash and cash equivalents	\$ 257,644	\$ 257,644	\$	\$
Notes receivable	77,583	77,583		
Notes payable	(140,816)	(140,816)		
Current portion of long-term debt	(11,367)	(11,367)		
Long-term debt	(334,810)	(335,310)		

5. Business Segments

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

	Three months ended March 31,	
	2011	2012
Revenues:		
North American Tire		
External customers	\$ 618,273	\$ 670,030
Intercompany	25,503	27,477
	643,776	697,507
International Tire		
External customers	283,521	314,228
Intercompany	79,901	90,233
	363,422	404,461
Eliminations	(105,404)	(117,710)
Net sales	\$ 901,794	\$ 984,258
Segment profit (loss):		
North American Tire		
	\$ 21,529	\$ 22,840
International Tire		
	20,072	32,640
Eliminations	(1,743)	(524)
Unallocated corporate charges	(7,675)	(7,246)
Operating profit	32,183	47,710
Interest expense	(9,421)	(8,475)
Interest income	669	651
Other income	5,505	465
Income before income taxes	\$ 28,936	\$ 40,351

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 \$478,340 at December 31, 2011 and March 31, 2012, respectively. These FIFO values have been reduced by approximately \$236,532 and \$245,332 at December 31, 2011 and March 31, 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 based units, the Company recognizes compensation expense based on the earlier of the vesting date or the date when the employee becomes eligible to retire. If awards can be settled in cash, these awards are recorded as liabilities and marked to market.

The following table discloses the amount of stock based compensation expense for the three-month period ended March 31, 2011 and 2012:

	Three months ended March 31,	
	2011	2012
Stock options	\$ 493	\$ 779
Restricted stock units	282	312
Performance based units	204	300
Total stock based compensation	\$ 979	\$ 1,391

Stock Options

In February 2011, executives participating in the 2011 - 2013 Long-Term Incentive Plan were granted 297,820 stock options which will vest one third each year through March 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 March 2015. The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weight-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 three months ended March 31, 2012:

	Number of Shares
Outstanding at January 1, 2012	1,737,881
Granted	589,934
Exercised	(11,575)
Expired	(18,800)
Cancelled	(500)
Outstanding at March 31, 2012	2,296,940
<i>Exercisable</i>	1,111,502

Restricted Stock Units (RSUs)

The following table provides details of the nonvested RSU activity for the three months ended March 31, 2012:

	Number of Restricted Units
Nonvested at January 1, 2012	186,805
Granted	3,000
Vested	(18,586)
Accrued dividend equivalents	1,196
Nonvested at March 31, 2012	172,415

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	438
Performance stock units outstanding at March 31, 2012	61,888

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

8. Pensions and Postretirement Benefits Other than Pensions

The following table discloses the amount of net periodic benefit costs for the three months ended March 31, 2011 and 2012 for the Company's defined benefit plans and other postretirement benefits:

	Pension Benefits - Domestic		Pension Benefits - International	
	2011	2012	2011	2012
Components of net periodic benefit cost:				
Service cost	\$ 1,925	\$ 2,354	\$ 624	\$ 751
Interest cost	11,250	10,714	4,498	4,151
Expected return on plan assets	(12,526)	(10,754)	(4,158)	(3,576)
Amortization of prior service cost			(188)	(184)
Amortization of actuarial loss	7,575	9,205	1,442	1,809
Net periodic benefit cost	\$ 8,224	\$ 11,519	\$ 2,218	\$ 2,951
	Other Post Retirement Benefits			
	2011	2012		
Components of net periodic benefit cost:				
Service cost	\$ 776	\$ 1,040		
Interest cost	3,462	3,133		
Amortization of prior service cost	(172)	(172)		
Amortization of actuarial loss	315	769		
Net periodic benefit cost	\$ 4,381	\$ 4,770		

On March 5, 2012, the Company announced pension benefits in the Cooper Avon Pension Plan would be frozen effective April 6, 2012. The Company is expected to recognize a pre-tax pension curtailment gain of approximately \$7,000 related to the announced pension plan benefit freeze in the second quarter of 2012 consistent with the timing of the plan amendment executed on April 4, 2012.

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	21,568	6,482	28,050
Other comprehensive income	10,435	2,304	12,739
Dividends payable to noncontrolling shareholders		(3,494)	(3,494)
Stock compensation plans, including tax benefit of \$4	1,552		1,552
Cash dividends \$.105 per share	(6,543)		(6,543)
Balance at March 31, 2012	\$ 604,813	\$ 125,381	\$ 730,194

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 March 31,	
	2011	2012
Net income attributable to noncontrolling shareholders' interests	\$ 2,803	\$ 6,482
Other comprehensive income:		
Currency translation adjustments	1,629	2,304
Comprehensive income attributable to noncontrolling shareholders' interests	\$ 4,432	\$ 8,786

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 liability reserves:

	2011	2012
Reserve at January 1	\$ 24,924	\$ 27,400
Additions	8,751	7,186
Payments	(5,756)	(5,275)
Reserve at March 31	\$ 27,919	\$ 29,311

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

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

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

The Company determines its reserves using the number of incidents expected during a year. During the first quarter of 2012, the Company increased its products liability reserve by \$19,537. The addition of another year of self-insured incidents accounted for \$11,486 of this increase. The Company revised its estimates of future settlements for unasserted and premature claims. These revisions increased the reserve by \$2,754. Finally, changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by \$5,297.

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 \$18,409 during the first quarter of 2012 to resolve cases and claims. 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 March 31, 2012 totaled \$208,481 (current portion of \$58,301).

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

For the three-month periods ended March 31, 2011 and 2012, products liability expenses totaled \$25,417 and \$26,997, respectively. Products liability expenses are included in Cost of goods sold in the Condensed Consolidated Statements of Income.

13. Income Taxes

For the quarter ended March 31, 2012, the Company recorded an income tax expense for continuing operations of \$12,301 as compared to \$10,459 for the comparable period in 2011. The provision includes a tax expense for discrete items of \$81. This primarily includes net interest from tax payables and refunds.

The effective tax rate for the three-month period for continuing operations is 30.3 percent, exclusive of discrete items, using the applicable effective tax rate determined using the forecasted multi-jurisdictional annual effective tax rates. For comparable periods in 2011, the effective tax rate for continuing operations, exclusive of discrete items, was 26.9 percent.

Tax expense for the quarter increased by \$1,842. This increase relates primarily to the impact from increase in earnings at the U.S. statutory rate of \$3,993, differences in the effective tax rates of international operations and the impact of the changes in the mix of earnings or loss by jurisdiction of \$435 and decreased discrete tax expense of (\$2,586).

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 \$9,142 relating primarily to non-U.S. net operating losses for a total valuation allowance of \$28,980. 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 for continuing operations. At March 31, 2012, the Company's liability, exclusive of interest, totals approximately \$987. The Company accrued no additional interest expense for the quarter.

At March 31, 2012, the Company has receivables for approximately \$4,886 of U.S. cash tax refunds, including interest. It is anticipated that we will collect or apply the majority of these receivables in 2012 with the final settlement of the IRS audit for years 2006 - 2010 which was effectively settled at December 31, 2011.

The Company and its subsidiaries are subject to income taxes 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 tax authorities for years prior to 2005.

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

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

Consolidated Results of Operations

(Dollar amounts in millions except per share amounts)

	Three months ended March 31,		
	2011	Change	2012
Revenues:			
North American Tire			
External customers	\$ 618.3	8.4%	\$ 670.0
Intercompany	25.5	7.8%	27.5
	643.8	8.3%	697.5
International Tire			
External customers	283.5	10.8%	314.2
Intercompany	79.9	12.9%	90.2
	363.4	11.3%	404.4
Eliminations	(105.4)	11.7%	(117.7)
Net sales	\$ 901.8	9.1%	\$ 984.2
Segment profit (loss):			
North American Tire	\$ 21.5	6.0%	\$ 22.8
International Tire	20.1	62.2%	32.6
Unallocated corporate charges	(7.7)	-6.5%	(7.2)
Eliminations	(1.7)	-70.6%	(0.5)
Operating profit	32.2	48.1%	47.7
Interest expense	9.4	-9.6%	8.5
Interest income	(0.7)	0.0%	(0.7)
Other income	(5.5)	-90.9%	(0.5)
Income before income taxes	29.0	39.3%	40.4
Income tax expense	10.5	17.1%	12.3
Net income	18.5	51.9%	28.1
Noncontrolling shareholders' interests	2.8	132.1%	6.5
Net income attributable to Cooper Tire & Rubber Company	\$ 15.7	37.6%	\$ 21.6
Basic earnings per share attributable to Cooper Tire & Rubber Company	\$ 0.25		\$ 0.35
Diluted earnings per share attributable to Cooper Tire & Rubber Company	\$ 0.25		\$ 0.34

Consolidated net sales for the three-month period ended March 31, 2012 were \$82 million higher than the comparable period one year ago. The increase in net sales for the first quarter of 2012 compared with the first quarter of 2011 was primarily the result of favorable pricing and mix (\$80 million). The Company's unit volumes decreased (\$9 million) from 2011. The International Tire Operations segment experienced favorable exchange rates in the first quarter of 2012 (\$11 million).

Operating profit in the first quarter of 2012 increased by \$16 million from the first quarter of 2011. Favorable pricing and mix (\$71 million) was partially offset by decreased manufacturing efficiencies (\$31 million) and higher raw material costs (\$8 million). Additionally, increased selling, general and administrative costs (\$9 million), higher products liability charges (\$2 million) and decreased unit volumes (\$1 million) reduced the Company's operating profit. Other operating costs, including start-up costs related to the Company's operations in Serbia and increased pension costs, were unfavorable (\$5 million) compared with the same period in 2011.

Manufacturing efficiencies decreased \$31 million when compared with the first quarter of 2011. The current period manufacturing costs include \$29 million of cost related to the labor issues at the Findlay, Ohio manufacturing facility. The Company incurred additional costs within the quarter to mobilize and train a temporary workforce, coupled with inefficiencies from operating at less than full capacity at the Findlay facility. The Company reached contract agreements with the bargaining unit employees at all of its unionized U.S. facilities in the first quarter of 2012.

The Company experienced increases in the costs of certain of its principal raw materials in the first quarter of 2012 compared with the first quarter 2011 levels. While raw material costs did begin to stabilize in the 4th quarter of 2011, they remain at elevated levels relative to historic prices. 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. The increases in the cost of natural rubber and petroleum-based materials were the most significant drivers of higher raw material costs during the first quarter of 2012, which were \$8 million higher than the same period in 2011. Substantially all U.S. inventories have been valued using the LIFO method of inventory costing.

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, volatility in the pricing of these commodities makes it difficult to accurately forecast and manage the costs of raw materials.

Products liability expenses totaled \$27 million and \$25 million in the first quarter of 2012 and 2011, respectively. The change in the liability results from continued 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 \$58 million in the first quarter of 2012 (5.9 percent of net sales) and \$49 million in the first quarter of 2011 (5.4 percent of net sales). The increase in selling, general and administrative expenses was due to increased selling costs associated with the higher sales levels, increased advertising spending and additional investment in the Company's distribution network in the Chinese market.

Interest expense decreased \$1 million in the first quarter of 2012 from the first quarter of 2011. Interest income was \$1 million in both the first quarter of 2012 and the first quarter of 2011.

Other income decreased \$5 million in the first quarter of 2012 compared to 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 March 31, 2012, the Company recorded an income tax expense for continuing operations of \$12.3 million as compared to \$10.5 million for the comparable period in 2011. The provision includes a small tax expense for discrete items, primarily related to net interest from tax payables and refunds.

The effective tax rate for the three-month period for continuing operations is 30.3 percent, exclusive of discrete items, using the applicable effective tax rate determined using the forecasted multi-jurisdictional annual effective tax rates. For comparable periods in 2011, the effective tax rate for continuing operations, exclusive of discrete items, was 26.9 percent.

Tax expense for the quarter increased by \$1.8 million. This increase relates primarily to the impact from increase in earnings at the U.S. statutory rate of \$4.0 million, differences in the effective tax rates of international operations and the impact of the changes in the mix of earnings or loss by jurisdiction of \$0.4 million and decreased discrete tax expense of (\$2.6) million.

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 \$19.8 million. In addition, the Company has recorded valuation allowances of \$9.1 million relating primarily to non-U.S. net operating losses for a total valuation allowance of \$29.0 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 March 31,		
	2011	Change	2012
Sales	\$ 643.8	8.3%	\$ 697.5
Operating profit	\$ 21.5	6.0%	\$ 22.8
Operating margin	3.3%		3.3%
United States unit shipments changes:			
Passenger tires			
Segment		-6.0%	
RMA members		-7.7%	
Total Industry		-4.5%	
Light truck tires			
Segment		-6.7%	
RMA members		-14.3%	
Total Industry		-14.0%	
Total light vehicle tires			
Segment		-6.1%	
RMA members		-8.6%	
Total Industry		-5.8%	
Total segment unit sales change		-2.9%	

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

Overview

The North American Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. The segment also distributes tires for racing, medium truck and motorcycles that are manufactured at the Company's affiliated operations. 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 sell its products directly to end users, except through three Company-owned retail stores and a small original equipment contract for medium truck tires.

Sales

Sales of the North American Tire Operations segment increased \$54 million, or 8.3 percent from the sales levels achieved in the first quarter of 2011. The increase in sales was a result of favorable pricing and mix (\$73 million), offset by lower unit volumes (\$19 million). In the U.S., the segment's unit shipments of total light vehicle tires decreased 6.1 percent in 2012 from 2011. This decrease compares with an 8.6 percent decrease in total light vehicle shipments experienced by the members of the Rubber Manufacturers Association (RMA), and a 5.8 percent decrease in total light vehicle shipments experienced for the total industry (which includes an estimate

for non-RMA members). Broadline and value tire lines, where the segment has a substantial presence, were relatively weaker than other product lines for the industry and the segment. The segment performed better than the industry in ultra-high performance, light truck and SUV tires. Commercial tire shipments of the Roadmaster brand, which are excluded from light vehicle shipments, were also strong during the quarter, up 14 percent compared with the first quarter of 2011.

Operating Profit

North American Tire Operations segment operating profit increased \$1 million in the first quarter of 2012 compared to the first quarter of 2011. Favorable pricing and mix (\$58 million) was partially offset by decreased manufacturing efficiencies (\$28 million) and higher raw material costs (\$18 million). Additionally, decreased unit volumes (\$3 million) and increased products liability charges (\$2 million) reduced the segment's operating profit. Selling, general and administrative charges, including increased selling costs associated with the higher sales levels and increased advertising spending, were unfavorable (\$3 million). Other operating expenses, including increased pension costs, were higher (\$3 million) compared with the same period in 2011.

Manufacturing costs increased \$28 million when compared with the first quarter of 2011. The current period manufacturing costs include \$29 million of cost related to the labor issues at the Findlay, Ohio manufacturing facility. The Company incurred additional costs within the quarter to mobilize and train the temporary workforce, coupled with inefficiencies from operating at less than full capacity at the Findlay facility. The Company reached contract agreements with the bargaining unit employees at all of its unionized U.S. facilities in the first quarter of 2012.

The North American Tire Operations segment continued to experience increases in the costs of certain of its principal raw materials in the first quarter of 2012 compared with the first quarter 2011 levels. The segment's internally calculated raw material index of 251 during the quarter was an increase of 5.3 percent for the three months ended March 31, 2012 from the same period of 2011. The raw material index decreased 0.9 percent from the fourth quarter of 2011.

International Tire Operations Segment

	Three months ended March 31,		
	2011	Change	2012
(Dollar amounts in millions)			
Sales	\$ 363.4	11.3%	\$ 404.5
Operating profit	\$ 20.1	62.7%	\$ 32.7
Operating margin	5.5%	2.6 points	8.1%
Unit sales change		7.8%	

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 and Russian markets. A small percentage of the tires manufactured by the segment are sold to OEMs.

Sales

Sales of the International Tire Operations segment increased \$41 million, or 11.3 percent, in the first quarter of 2012 compared with the first quarter of 2011. Contributing to the increase in sales were higher unit volumes (\$28 million) and favorable pricing and mix (\$2 million). The segment experienced favorable exchange rates in the first quarter of 2012 (\$11 million). The increase in volume was a combination of moderate growth in the Chinese truck and bus radial tire market, as well as continued efforts to expand distribution and supply of light vehicle tires within the segment.

Operating Profit

The International Tire Operations segment operating profit increased \$13 million in the first quarter of 2012 compared to the first quarter of 2011. The increase in operating profit was due primarily to lower raw material costs (\$17 million), favorable pricing and mix (\$6 million) and higher unit volumes (\$3 million). Partial offsets were increased selling, general and administrative expenses (\$7 million), which included increased selling costs associated with the higher sales levels, higher advertising spend and additional investments in the distribution network in the Chinese market. Manufacturing efficiencies decreased (\$3 million) and start-up costs related to the Company's operations in Serbia (\$3 million) were unfavorable compared with the same period in 2011.

The International Tire Operations segment experienced decreases in the costs of certain of its raw materials in the first quarter of 2012 as compared to the same period in 2011. Raw material costs per unit sold have decreased 3.1 percent for the first quarter of 2012 as compared to 2011. For inventory valuation, the segment uses FIFO and the average cost method, which are different than the North American segment and result in a longer lag between moves in the spot prices of commodities and the impact on financial statements.

Outlook for Company

For 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 expects to exceed industry growth rates. Potential for higher volume growth exists as pent-up demand for replacement tires has continued to build. It is difficult to accurately predict when and how that demand will manifest.

Our manufacturing facilities will focus on ramping production up and driving cost savings to the bottom line. Impacts from the lockout in Findlay, which was resolved in the first quarter, should be negligible in the second quarter.

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 Company's Serbian plant.

Raw material costs are forecasted to remain at elevated levels in the future, but persistent volatility can make it difficult to accurately predict these movements in raw material prices. The Company's raw material index is likely to be sequentially higher between 5 percent and 7 percent during the second quarter from the first quarter of 2012.

The Company expects its effective tax rate for 2012 will most likely be between 26 percent and 34 percent.

The Company's record of achievement gives it confidence that it can successfully compete in a volatile economy and industry. 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. The Company is optimistic about its future and confident that successfully implementing this plan will drive increased shareholder value.

Liquidity and Capital Resources

Generation and uses of cash Net cash provided by operating activities improved \$124 million during the first three months of 2012 compared to the first three months of 2011. Inventories increased at a much lower rate than historical first quarter increases due in part to the strong first quarter sales and the labor situation in Findlay. Accounts payable increased more in the first quarter of 2012 as a result of increased raw material purchases.

Net cash used in investing activities during the first quarters of 2011 and 2012 reflect capital expenditures of \$35 million and \$37 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 quarter of 2011, the Company repaid \$21 million of short-term notes; while during the first quarter of 2012, the Company borrowed an additional \$8 million. In both 2011 and 2012, the Company borrowed additional funds using long-term debt and in 2012, the Company repaid \$11 million of maturing long-term debt. In 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 the first quarters of 2011 and 2012 were \$7 million.

Available cash, credit facilities and contractual commitments - At March 31, 2012, the Company had cash and cash equivalents of \$258 million.

Domestically, the Company has a revolving credit facility with a consortium of four banks that provides up to \$200 million based on available collateral and expires in July 2016. The Company also has an accounts receivable securitization facility with a \$175 million limit with a June 2014 maturity. These credit facilities remain undrawn, other than to secure letters of credit, and have no significant financial covenants until available credit is less than specified amounts. The Company's additional borrowing capacity based on eligible collateral through use of its credit facility with its bank group and its accounts receivable securitization facility at March 31, 2011 was \$293 million.

The Company's affiliated operations in Asia have annual renewable unsecured credit lines that provide up to \$383 million of borrowings and do not contain financial covenants. The additional borrowing capacity on the Asian credit lines totaled \$222 million.

The Company expects capital expenditures for 2012 to be in the \$180 to \$210 million range of which approximately \$54 million will be in consolidated entities where the Company's ownership is between 50 and 100 percent.

The following table summarizes long-term debt at March 31, 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
Subsidiaries	
5.99% to 6.08% unsecured notes due in 2012	9.5
6.24% to 6.65% unsecured notes due in 2014	26.5
6.65% unsecured notes due in 2015	3.2
6.77% unsecured notes due in 2016	7.2
	46.4
Total long-term debt	346.2
Less current maturities	11.4
	\$ 334.8

Contingencies

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

Pursuant to applicable accounting rules, the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. The Company uses a range of settlements because an average settlement cost would not be meaningful since the products liability claims faced by the Company are unique and widely variable. The cases involve different types of tires, models and lines, different circumstances surrounding the accident such as different applications, vehicles, speeds, road conditions, weather conditions, driver error, tire repair and maintenance practices, service life conditions, as well as different jurisdictions and different injuries. In addition, in many of the Company's products liability lawsuits the plaintiff alleges that his or her harm was caused by one or more co-defendants who acted independently of the Company. Accordingly, the claims asserted and the resolutions of those claims have an enormous amount of variability. The costs have ranged from zero dollars to \$33 million in one case with no average that is meaningful. No specific accrual is made for individual unasserted claims or for premature claims, asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known. However, an accrual for such claims based, in part, on management's expectations for future litigation activity and the settled claims history is maintained. Because of the speculative nature of litigation in the United States, the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The Company's experience has demonstrated that its estimates have been reasonably accurate and, on average, cases are settled at amounts close to the reserves established. However, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

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

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;

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;

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

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

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;

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;

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

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.

It is not possible to foresee or identify all such factors. Any forward-looking statements in this report are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances.

Prospective investors are cautioned that any such statements are not a guarantee of future performance and actual results or developments may differ materially from those projected.

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

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

Item 4. CONTROLS AND PROCEDURES

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

The Company, under the supervision and with the participation of management, including the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as of March 31, 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 March 31, 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 it 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 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 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. is currently scheduled to expire. 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 market place 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 has also recently increased its investment in COOCSA, a tire manufacturing entity in Mexico, and has established an operation in Serbia. There are a number of risks in doing business abroad, including political and economic uncertainty, social unrest, sudden changes in laws and regulations, shortages of trained labor and the uncertainties associated with entering into joint ventures or similar arrangements in foreign countries. These risks may impact the Company's ability to expand its operations in different regions and otherwise achieve its objectives relating to its foreign operations, including utilizing these locations as suppliers to other markets. In addition, compliance with multiple and potentially conflicting foreign laws and regulations, import and export limitations and exchange controls is burdensome and expensive. The Company's foreign operations also subject it to the risks of international terrorism and hostilities and to foreign currency risks, including exchange rate fluctuations and limits on the repatriation of funds.

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

The Company's operations depend on maintaining a skilled workforce and any interruption of its workforce due to shortages of skilled technical, production or professional workers, work disruptions, or other events could interrupt the Company's operations and affect its operating results. Further, a significant number of the Company's employees are currently represented by unions.

If the Company is unable to 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.

In February 2008, the Company announced its strategic plan, which contains three imperatives:

Build a sustainable, competitive cost position;

Drive profitable top line growth; and

Build bold organizational capabilities and enablers to support strategic goals.

If the assumptions used in developing the 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 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."

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.

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

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

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 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 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 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 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

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

* Indicates management contracts or compensatory plans or arrangements.

SIGNATURES

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

COOPER TIRE & RUBBER COMPANY

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

Vice President and Chief

Financial Officer

(Principal Financial Officer)

/s/ R. W. Huber
R. W. Huber

Director of External Reporting

(Principal Accounting Officer)

May 2, 2012

(Date)