COOPER TIRE & RUBBER CO
Form 10-K
March 14, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

For Annual and Transition Reports Pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934

(Mark One)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the fiscal year ended December 31, 2013

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the transition period from __________ to __________

Commission File Number 001-04329

COOPER TIRE & RUBBER COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE	**34-4297750**
(State of incorporation)	**(I.R.S. employer identification no.)**
701 Lima Avenue, Findlay, Ohio	**45840**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	**(Name of each exchange on which registered)**
Common Stock, $1 par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 during the preceding 12 months. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-Accelerated Filer ¨ (Do not check if a small 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 x

The aggregate market value of the voting common stock held by non-affiliates of the registrant at June 30, 2013 was $2,099,912,950.

The number of shares outstanding of the registrant s common stock as of February 28, 2014 was 65,292,278.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information from the registrant s definitive proxy statement for its 2014 Annual Meeting of Stockholders will be herein incorporated by reference into Part III, Items 10 14, of this report.

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COOPER TIRE & RUBBER COMPANY FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

PART I

Item 1. BUSINESS

Cooper Tire & Rubber Company with its subsidiaries (Cooper or the Company) is a leading manufacturer and marketer of replacement tires. It is the fourth largest tire manufacturer in North America and, according to a recognized trade source, the Cooper family of companies is the eleventh largest tire company in the world based on sales. Cooper focuses on the manufacture and sale of passenger and light and medium truck replacement tires.

The Company is organized into two separate, reportable business segments: North American Tire Operations and International Tire Operations. Each segment is managed separately. Additional information on the Company s segments, including their financial results, total assets, products, markets and presence in particular geographic areas, appears in Management s Discussion and Analysis of Financial Condition and Results of Operations and the Business Segments note to the consolidated financial statements.

Cooper Tire & Rubber Company was incorporated in the state of Delaware in 1930 as the successor to a business originally founded in 1914. Based in Findlay, Ohio, Cooper and its family of companies currently operate 9 manufacturing facilities and 40 distribution centers in 11 countries. As of December 31, 2013, it employed 13,280 persons worldwide.

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Business Segments

North American Tire Operations Segment

The North American Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the United States (U.S.) replacement market. The segment also distributes tires for racing, medium truck and motorcycles that are manufactured in the Company s International Tire Operations segment. 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. The segment sells a limited number of tires to original equipment manufacturers (OEMs).

The segment operates in a highly competitive industry, which includes Bridgestone Corporation, Goodyear Tire & Rubber Company and Groupe Michelin. These competitors are substantially larger than the Company and serve OEMs as well as the replacement tire market. The segment also faces competition from low-cost producers in Asia, Mexico, South America and Central Europe. Some of those producers are foreign affiliates of the segment s competitors in North America. The segment had a market share in 2013 of approximately 12 percent of all light vehicle replacement tire sales in the U.S. The segment also participates in the U.S. medium truck replacement market. In addition to manufacturing tires in the U.S., the segment has a joint venture manufacturing operation in Mexico, Corporacion de Occidente SA de CV (COOCSA). A portion of the products manufactured by the segment are exported throughout the world.

Success in competing for the sale of replacement tires is dependent upon many factors, the most important of which are price, quality, performance, line coverage, availability through appropriate distribution channels and relationships with dealers and retailers. Other factors include warranty, credit terms and other value-added programs. The segment has built close working relationships through the years with independent dealers. It believes those relationships have enabled it to obtain a competitive advantage in that channel of the market. As a steadily increasing percentage of replacement tires are sold by large regional and national tire retailers, the segment has increased its penetration of those distribution channels, while maintaining a focus on its traditionally strong network of independent dealers.

The segment s replacement tire business has a broad customer base that includes purchasers of proprietary brand tires that are marketed and distributed by the Company and private label tires which are manufactured by the Company but marketed and distributed by the Company s customers. The segment is a leading supplier of private label tires in the U.S.

Customers generally place orders on a month-to-month basis and the segment adjusts production and inventory to meet those orders which results in varying backlogs of orders at different times of the year. Tire sales are subject to a seasonal demand pattern. This usually results in the sales volumes being strongest in the third and fourth quarters and weaker in the second and first quarters.

International Tire Operations Segment

The International Tire Operations segment has manufacturing operations in the United Kingdom (U.K.), the Republic of Serbia (Serbia) and the People s Republic of China (PRC). The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for the global market. On January 17, 2012, the segment acquired certain assets of a light vehicle tire manufacturing facility in Serbia. This entity manufactures light vehicle tires for the European markets. The segment s Cooper Kunshan entity in the PRC currently manufactures light vehicle tires. Under an agreement with the government of the PRC, all of the tires produced at this facility through

2012 had been exported. Beginning in 2013, tires produced at this facility are also sold in the domestic market. The segment also has a joint venture in the PRC, Cooper Chengshan (Shandong) Tire Company Ltd. (CCT), which manufactures and markets radial and bias medium truck tires as well as passenger and light truck tires for the global market. A small percentage of the tires manufactured by the segment are sold to OEMs.

The segment has also established sales, marketing, distribution and research and development capabilities to support the Company s objectives.

As in North America, the segment operates in a highly competitive industry, which includes Bridgestone Corporation, Goodyear Tire & Rubber Company and Groupe Michelin. These competitors are substantially larger than the Company and serve OEMs as well as the replacement tire market. The segment also faces competition from low-cost producers in certain markets.

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Raw Materials

The Company s principal raw materials include natural rubber, synthetic rubber, carbon black, chemicals and steel reinforcement components. The Company acquires its raw materials from various sources around the world to assure continuing supplies for its manufacturing operations and mitigate the risk of potential supply disruptions.

During 2013, the Company experienced lower raw material costs compared to levels of 2012. The pricing volatility of natural rubber and certain other raw materials contributes to the difficulty in accurately predicting and managing these costs.

The Company has a purchasing office in Singapore to acquire natural rubber directly from producers in Southeast Asia. This purchasing operation enables the Company to work directly with producers to continually improve consistency and quality while reducing the costs of materials, transportation and transactions.

The Company s contractual relationships with its raw material suppliers are generally based on long-term agreements and/or purchase order arrangements. For natural rubber and natural gas, procurement is managed through a combination of buying forward 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 purchases. These arrangements only cover quantities needed to satisfy normal manufacturing demands.

Working Capital

The Company s working capital consists mainly of inventory, accounts receivable and accounts payable. These working capital accounts are closely managed by the Company. Inventory balances are primarily valued at a Last In First Out (LIFO) basis for the North American entities and under the first-in first-out (FIFO) or average cost method for entities in the International Tire Operations segment. Inventories turn regularly, but balances typically increase during the first half of the year before declining as a result of increased sales in the second half. Accounts receivable and accounts payable are also affected by this business cycle, typically requiring the Company to have greater working capital needs during the second and third quarters. The Company engages in a rigorous credit analysis of its customers and monitors their financial positions. The Company offers incentives to certain customers to encourage the payment of account balances prior to their scheduled due dates.

At December 31, 2013, the Company held cash and cash equivalents of $398 million. The Company s inventory levels are within the targeted range to meet projected demand. The mix of inventory is critical to inventory turnover and meeting customer demand.

Research, Development and Product Improvement

The Company directs its research activities toward product development, performance and operating efficiency. The Company conducts extensive testing of current tire lines, as well as new concepts in tire design, construction and materials. During 2013, approximately 81 million miles of tests were performed on indoor test wheels and in monitored road tests. The Company has a tire and vehicle test track in Texas that assists with the Company s testing activities. Uniformity equipment is used to physically monitor manufactured tires for high standards of ride quality. The Company continues to design and develop specialized equipment to fit the precise needs of its manufacturing and quality control requirements. Research and development expenditures were $44.6 million, $50.8 million and $51.1 million during 2011, 2012 and 2013, respectively.

Patents, Intellectual Property and Trademarks

The Company owns and/or has licenses to use patents and intellectual property covering various aspects in the design and manufacture of its products and processes, and equipment for the manufacture of its products that will continue to be amortized over the next two years. While the Company believes these assets as a group are of material importance, it does not consider any one asset or group of these assets to be of such importance that the loss or expiration thereof would materially affect its business.

The Company owns and uses tradenames and trademarks worldwide. While the Company believes such tradenames and trademarks as a group are of material importance, the trademarks the Company considers most significant to its business are those using the words Cooper, Mastercraft and Avon. The Company believes all of these significant trademarks are valid and will have unlimited duration as long as they are adequately protected and appropriately used. Certain other tradenames and trademarks are being amortized over the next four to fifteen years.

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Seasonal Trends

There is year-round demand for passenger and truck replacement tires, but passenger replacement tire sales are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of June through November.

Environmental Matters

The Company recognizes the importance of compliance in environmental matters and has an organizational structure to supervise environmental activities, planning and programs. The Company also participates in activities concerning general industry environmental matters. The Company s operations have been recognized with several awards for efforts to improve energy efficiency.

The Company s manufacturing facilities, like those of the industry generally, are subject to numerous laws and regulations designed to protect the environment. In general, the Company has not experienced difficulty in complying with these requirements and believes they have not had a material adverse effect on its financial condition or the results of its operations. The Company expects additional requirements with respect to environmental matters will be imposed in the future. The Company s 2013 expense and capital expenditures for environmental matters at its facilities were not material, nor is it expected that expenditures in 2014 for such uses will be material.

Foreign Operations

The Company has a manufacturing facility, a technical center, a distribution center and its European headquarters office located in the U.K. There are seven distribution centers and six sales offices in Europe. The Company has a manufacturing facility in the Republic of Serbia. The Company has a manufacturing facility and a joint venture manufacturing facility, 21 distribution centers, a technical center, two sales offices and an administrative office in the PRC. The Company also has a purchasing office in Singapore. In Mexico, the Company has a joint venture manufacturing facility, a sales office and a distribution center.

Additional information on the Company s foreign operations can be found in the Business Segments note to the consolidated financial statements.

Available Information

The Company makes available free of charge, on or through its website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the U.S. Securities and Exchange Commission (SEC). The Company s internet address is http://www.coopertire.com. The Company has adopted charters for each of its Audit, Compensation and Nominating and Governance Committees, corporate governance guidelines and a code of business ethics and conduct, which are available on the Company s website and will be available to any stockholder who requests them from the Company s Director of Investor Relations. The information contained on the Company s website is not incorporated by reference in this annual report on Form 10-K and should not be considered a part of this report.

Item 1A. RISK FACTORS

Some of the more significant risk factors related to the Company and its subsidiaries follow:

Pricing volatility for raw materials or commodities or an inadequate supply of key raw materials could result in increased costs and may significantly affect the Company s profitability.

The pricing volatility for natural rubber, petroleum-based materials and other raw materials contributes to the difficulty in managing the costs of raw materials. Costs for certain raw materials used in the Company s operations, including natural rubber, chemicals, carbon black, steel reinforcements and synthetic rubber remain highly volatile. Increasing costs for raw material supplies will increase the Company s production costs and affect its margins if the Company is unable to pass the higher production costs on to its customers in the form of price increases. Further, if the Company is unable to obtain adequate supplies of raw materials in a timely manner for any reason, its operations could be interrupted or otherwise adversely affected.

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The Company is facing heightened risks due to the current business environment.

Current global economic conditions may affect demand for the Company s products, create volatility in raw material costs and affect the availability and cost of credit. These conditions also affect the Company s customers and suppliers as well as the ultimate consumer.

Deterioration in the global macroeconomic environment or in specific regions could impact the Company and, depending upon the severity and duration of these factors, the Company s profitability and liquidity position could be negatively impacted.

The Company s competitors may also change their actions as a result of changes to the business environment, which could result in increased price competition and discounts, resulting in lower margins for the business.

The Company is facing risks related to the impact of labor disruptions at its CCT joint venture, changes in the Company s ownership interests in CCT and changes in its relationship with its joint venture partner.

The Company has experienced work stoppages and other labor disruptions at CCT related to concerns regarding the then-pending merger agreement between Apollo and the Company, including denying access to certain representatives of the Company and withholding certain business and financial information. On December 30, 2013, the Company terminated the merger agreement with Apollo. Since this date, representatives of the Company regained access to the CCT facilities, including its business and financial information, and operations have returned to normal. Were labor or other disruptions at CCT to resume, it could have a negative effect on the Company s operations, financial position and cash flows, as well as its ability to report its results on a timely basis.

In January 2014, the Company entered into an agreement (the CCT Agreement) with Chengshan Group Company Ltd. (Chengshan) and The Union of Cooper Chengshan (Shandong) Tire Company Co., Ltd. (the Union) regarding CCT that provides, among other matters, that the Union and Chengshan will provide support to return CCT to normal operations. In addition, the CCT Agreement provides Chengshan a limited contractual right to either (i) purchase the Company s equity interest in CCT or (ii) sell its equity interest in CCT to the Company. The uncertainty regarding the ultimate ownership of CCT during the term of the purchase and sale rights set forth in the CCT Agreement could have an adverse impact on our business and our strategic growth plans. In addition, the forced sale of the Company s equity interests in CCT to Chengshan or forced purchase of Chengshan s equity interest in CCT by the Company pursuant to the CCT Agreement could have an adverse impact on the Company s business, strategic growth plans, financial position, cash flows and results of operations.

The Company may fail to successfully develop or implement information technologies or related systems, resulting in a significant competitive disadvantage.

Successfully competing in the highly competitive tire industry can be impacted by the successful development of information technology. If the Company fails to successfully implement information technology systems, it may be at a disadvantage to its competitors resulting in lost sales and negative impacts on the Company s earnings.

The Company also can be at risk of legal action, loss of business or other loss if it fails to protect sensitive data or technology systems that help it to operate.

The Company is implementing an Enterprise Resource Planning (ERP) system that will require significant amounts of capital and human resources to deploy. These requirements may exceed the Company s initial projections. If for any reason this implementation is not successful, the Company could be required to expense rather than capitalize related amounts. Throughout implementation of the system there are also risks created to the Company s ability to successfully and efficiently operate.

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

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

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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 s results could be impacted by changes in tariffs imposed by the U.S. or other governments on imported tires.

The Company s ability to competitively source and sell tires can be significantly impacted by changes in tariffs imposed by various governments. Other effects, including impacts on the price of tires, responsive actions from other governments and the opportunity for other competitors to establish a presence in markets where the Company participates could also have significant impacts on the Company s results**.** In September 2012, a special tariff on light vehicle tires imported from the PRC to the U.S. expired, which has resulted in an increase in imported tires from the PRC which has impacted the Company s sales, market share and profits.

The Company s expenditures for pension and other postretirement obligations could be materially higher than it has predicted if its underlying assumptions prove to be incorrect.

The Company provides defined benefit and hybrid pension plan coverage to union and non-union U.S. employees and a contributory defined benefit plan in the U.K. The Company s pension expense and its required contributions to its pension plans are directly affected by the value of plan assets, the projected and actual rates of return on plan assets and the actuarial assumptions the Company uses to measure its defined benefit pension plan obligations, including the discount rate at which future projected and accumulated pension obligations are discounted to a present value and the inflation rate. The Company could experience increased pension expense due to a combination of factors, including the decreased investment performance of its pension plan assets, decreases in the discount rate and changes in its assumptions relating to the expected return on plan assets. The Company could also experience increased other postretirement expense due to decreases in the discount rate, increases in the health care trend rate and changes in the health care environment.

In the event of declines in the market value of the Company s pension assets or lower discount rates to measure the present value of pension and other postretirement benefit obligations, the Company could experience changes to its Consolidated Balance Sheet or significant cash requirements.

Compliance with regulatory initiatives could increase the cost of operating the Company s business.

The Company is subject to federal, state, local and foreign laws and regulations. Compliance with those laws now in effect, or that may be enacted, could require significant capital expenditures, increase the Company s production costs and affect its earnings and results of operations.

Several countries have or may implement labeling requirements for tires. This legislation could cause the Company s products to be at a disadvantage in the marketplace resulting in a loss of market share or could otherwise impact the Company s ability to distribute and sell its tires.

In addition, while the Company believes that its tires are free from design and manufacturing defects, it is possible that a recall of the Company s tires could occur in the future. A recall could harm the Company s reputation, operating results and financial position.

The Company is also subject to legislation governing labor occupational safety and health both in the U.S. and other countries. The related legislation can change over time making it more expensive for the Company to produce its products. The Company could also, despite its best efforts to comply with these laws, be found liable and be subject to additional costs because of this legislation.

The Company has a risk due to volatility of the capital and financial markets.

The Company periodically requires access to the capital and financial markets as a significant source of liquidity for maturing debt payments or working capital needs that it cannot satisfy by cash on hand or operating cash flows. Substantial volatility in world capital markets and the banking industry may make it difficult for the Company to access credit markets and to obtain financing or refinancing, as the case may be, on satisfactory terms or at all. In addition, various additional factors, including a deterioration of the Company s credit ratings or its business or financial condition, could further impair its access to the capital markets. Additionally, any inability to access the capital markets, including the ability to refinance existing debt when due, could require the Company to defer critical capital expenditures, reduce or not pay dividends, reduce spending in areas of strategic importance, sell important assets or, in extreme cases, seek protection from creditors. See also related comments under There are risks associated with the Company s global strategy of using joint ventures and partially owned subsidiaries.

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The Company s operations in the PRC have been financed in part using multiple loans from several lenders to finance facility construction, expansions and working capital needs. These loans are generally for terms of three years or less. Therefore, debt maturities occur frequently and access to the capital markets is crucial to their ability to maintain sufficient liquidity to support their operations.

The Company conducts its manufacturing, sales and distribution operations on a worldwide basis and is subject to risks associated with doing business outside the U.S.

The Company has affiliate, subsidiary and joint venture operations worldwide, including in the U.S., the U.K., Europe, Mexico and the PRC. The Company has two manufacturing entities, the Cooper Chengshan joint venture and Cooper Kunshan, in the PRC and has continued to expand operations in that country. The Company also is the majority owner of COOCSA, a manufacturing entity in Mexico, and has established an operation in Serbia. There are a number of risks in doing business abroad, including political and economic uncertainty, social unrest, sudden changes in laws and regulations, shortages of trained labor and the uncertainties associated with entering into joint ventures or similar arrangements in foreign countries. These risks may impact the Company s ability to expand its operations in different regions and otherwise achieve its objectives relating to its foreign operations, including utilizing these locations as suppliers to other markets. In addition, compliance with multiple and potentially conflicting foreign laws and regulations, import and export limitations and exchange controls is burdensome and expensive. The Company s foreign operations also subject it to the risks of international terrorism and hostilities and to foreign currency risks, including exchange rate fluctuations and limits on the repatriation of funds.

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

The Company s ability to sell tires may be significantly impacted if it does not develop or 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.

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

The Company s operations depend on maintaining a skilled workforce and any interruption of its workforce due to shortages of skilled technical, production or professional workers, work disruptions, or other events could interrupt the Company s operations and affect its operating results. Further, a significant number of the Company s employees are currently represented by unions. If the Company is unable to resolve labor disputes or if there are work stoppages or other work disruptions, the Company s business and operating results could suffer. See also related comments under The Company is facing risks related to the impact of labor disruptions and changes in the Company s relationship with, or ownership interests in, its Cooper Chengshan (Shandong) Tire Company Ltd. joint venture.

If the Company is unable to attract and retain key personnel, its business could be materially adversely affected.

The Company s business depends on the continued service of key members of its management. The loss of the services of a significant number of members of its management team could have a material adverse effect on its business. The Company s future success will also depend on its ability to attract, retain and develop highly skilled personnel, such as engineering, marketing and senior management professionals. Competition for these employees is intense, especially in the PRC, and the Company could experience difficulty from time to time in hiring and retaining the personnel necessary to support its business. If the Company does not succeed in retaining its current employees and attracting new high-quality employees, its business could be materially adversely affected.

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If assumptions used in developing the Company s strategic plan are inaccurate or the Company is unable to execute its strategic plan effectively, its profitability and financial position could be negatively impacted.

If the assumptions used in developing the Company s strategic plan vary significantly from actual conditions, the Company s sales, margins and profitability could be harmed. If the Company is unsuccessful in implementing the tactics necessary to execute its strategic plan it can also be negatively impacted.

The Company may not be successful in executing and integrating acquisitions into its operations, which could harm its results of operations and financial condition.

The Company routinely evaluates potential acquisitions and may pursue acquisition opportunities, some of which could be material to its business. The Company cannot provide assurance whether it will be successful in pursuing any acquisition opportunities or what the consequences of any acquisition would be. The Company may encounter various risks in any acquisitions, including:

- the possible inability to integrate an acquired business into its operations;
- diversion of management s attention;
- loss of key management personnel;
- unanticipated problems or liabilities; and
- increased labor and regulatory compliance costs of acquired businesses.

Some or all of those risks could impair the Company s results of operations and impact its financial condition. The Company may finance any future acquisitions from internally generated funds, bank borrowings, public offerings or private placements of equity or debt securities, or a combination of the foregoing. Acquisitions may involve the expenditure of significant funds and management time.

Acquisitions may also require the Company to increase its borrowings under its bank credit facilities or other debt instruments, or to seek new sources of liquidity. Increased borrowings would correspondingly increase the Company s financial leverage, and could result in lower credit ratings and increased future borrowing costs. These risks could also reduce the Company s flexibility to respond to changes in its industry or in general economic conditions.

There are risks associated with the Company s global strategy which includes using joint ventures and partially-owned subsidiaries.

The Company s strategy includes the use of joint ventures and other partially-owned subsidiaries. These entities operate in countries outside of the U.S., are generally less well capitalized than the Company and bear risks similar to the risks of the Company. In addition, there are specific risks applicable to these subsidiaries and these risks, in turn, add potential risks to the Company. Such risks include greater risk of joint venture partners or other investors failing to meet their obligations under related shareholders agreements; conflicts with joint venture partners; the possibility of a joint venture partner taking valuable knowledge from the Company; and risk of being denied access to the capital markets, which could lead to resource demands on the Company in order to maintain or advance its strategy. The Company s outstanding notes and primary credit facility contain cross default provisions in the event of certain defaults by the Company under other agreements with third parties. For further discussion of access to the capital markets, see also related comments under The Company has a risk due to volatility of the capital and financial markets.

If the price of energy sources increases, the Company s operating expenses could increase significantly or the demand for the Company s products could be affected.

The Company s manufacturing facilities rely principally on natural gas, as well as electrical power and other energy sources. High demand and limited availability of natural gas and other energy sources can result in significant increases in energy costs increasing the Company s operating expenses and transportation costs. Higher energy costs would increase the Company s production costs and adversely affect its margins and results of operations. If the Company is unable to obtain adequate sources of energy, its operations could be interrupted.

In addition, if the price of gasoline increases significantly for consumers, it can affect driving and purchasing habits and impact demand for tires.

The Company is required to comply with environmental laws and regulations that could cause it to incur significant costs.

The Company s manufacturing facilities are subject to numerous federal, state, local and foreign laws and regulations designed to protect the environment, and the Company expects that additional requirements with respect to environmental matters will be imposed on it in the future. In addition, the Company has contractual indemnification obligations for environmental remediation costs and liabilities that may arise relating to certain divested operations. Material future expenditures may be necessary if compliance standards change, if material unknown conditions that require remediation are discovered, or if required remediation of known conditions becomes more extensive than expected. If the Company fails to comply with present and future environmental laws and regulations, it could be subject to future liabilities or the suspension of production, which could harm its business or results of operations. Environmental laws could also restrict the Company s ability to expand its facilities or could require it to acquire costly equipment or to incur other significant expenses in connection with its manufacturing processes.

The Company may not be able to protect its intellectual property rights adequately.

The Company s success depends in part upon its ability to use and protect its proprietary technology and other intellectual property, which generally covers various aspects in the design and manufacture of its products and processes. The Company owns and uses tradenames and trademarks worldwide. The Company relies upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements and patent, copyright and trademark laws to protect its intellectual property rights. The steps the Company takes in this regard may not be adequate to prevent or deter challenges, reverse engineering or infringement or other violations of its intellectual property, and the Company may not be able to detect unauthorized use or take appropriate and timely steps to enforce its intellectual property rights. In addition, the laws of some countries may not protect and enforce the Company s intellectual property rights to the same extent as the laws of the U.S. Further, while we believe that we have rights to use all intellectual property in the Company s use, if the Company is found to infringe on the rights of others it could be adversely impacted.

The Company is facing risks relating to enactment of healthcare legislation.

The Company is facing risks emanating from the enactment of legislation by the U.S. government including the *Patient Protection and Affordable Care Act* and the related *Healthcare and Education Reconciliation Act,* which are collectively referred to as healthcare legislation. This major legislation is being implemented over a period of several years and the ultimate cost and the potentially adverse impact to the Company and its employees cannot be quantified at this time.

The impact of proposed new accounting standards may have a negative impact on the Company s financial statements.

The Financial Accounting Standards Board is considering several projects which may result in the modification of accounting standards affecting the Company, including standards relating to revenue recognition, financial instruments, leasing, and others. Any such changes could have a negative impact on the Company s financial statements.

The realizability of deferred tax assets may affect the Company s profitability and cash flows.

The Company has significant net deferred tax assets recorded on the balance sheet and determines at each reporting period whether or not a valuation allowance is necessary based upon the expected realizability of such deferred tax assets. In the U.S., the Company has recorded deferred tax assets, the largest of which relate to products liability, pension and other postretirement benefit obligations, partially offset by deferred tax liabilities, the most significant of which relates to accelerated depreciation. The Company s non-U.S. deferred tax assets relate to pension, accrued expenses and net operating losses, and are partially offset by deferred tax liabilities related to accelerated depreciation. Based upon the Company s assessment of the realizability of its net deferred tax assets, the Company maintains a small valuation allowance for the portion of its U.S. deferred tax assets primarily associated with a capital loss carryforward. In addition, the Company has recorded valuation allowances for deferred tax assets primarily associated with non-U.S. net operating losses. The Company s assessment of the realizability of deferred tax assets is based on certain assumptions regarding future profitability, and potentially adverse business conditions that could have a negative impact on the realizability and therefore impact the Company s operating results or financial position.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

As shown in the following table, at December 31, 2013, the Company maintained 72 manufacturing, distribution, retail stores and office facilities worldwide. The Company owns a majority of the manufacturing facilities while some manufacturing, distribution and office facilities are leased.

	North American Tire Operations		International Tire Operations		
Type of Facility	**United States**	**Mexico**	**Europe**	**Asia**	**Total**
Manufacturing	4	1*	2	2*	9
Distribution	10	1	8	21	40
Retail Stores	3				3
Technical centers and offices	6	1	8	5	20
Total	23	3	18	28	72

* This includes a manufacturing facility that is a joint venture.

The Company believes its properties have been adequately maintained, generally are in good condition and are suitable and adequate to meet the demands of each segment s business.

Item 3. LEGAL PROCEEDINGS

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are products liability cases in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. After reviewing all of these proceedings, and taking into account all relevant factors concerning them, the Company does not believe that any liabilities resulting from these proceedings are reasonably likely to have a material adverse effect on its liquidity, financial condition or results of operations in excess of amounts recorded at December 31, 2013. In the future, such costs could have a materially greater impact on the consolidated results of operations and financial position of the Company than in the past.

Certain Litigation Related to the Apollo Merger

On June 17, 2013, an alleged stockholder of the Company filed a putative class-action lawsuit in the Court of Common Pleas of Hancock County, Ohio relating to the proposed acquisition of the Company (the Apollo transaction) by wholly owned subsidiaries of Apollo Tyres Ltd. (Apollo). That lawsuit, captioned *Auld v. Cooper Tire & Rubber Co., et al.*, No. 2013-CV-293, generally alleges that the directors of the Company breached their fiduciary duties to the Company s stockholders by agreeing to enter into the transaction for an allegedly unfair price and as the result of an allegedly unfair process. As discussed below, on December 30, 2013, the Company terminated the merger agreement with the Apollo entities.

Between June 18 and June 27, 2013, alleged stockholders of the Company filed four other putative class-action lawsuits in the Court of Chancery of the State of Delaware relating to the proposed Apollo transaction. Those lawsuits, which were consolidated under the caption *In re Cooper Tire & Rubber Co. Stockholders Litigation*, No. 8658-VCL, generally allege that the directors of the Company breached their fiduciary duties to the Company s stockholders by agreeing to enter into the then-pending transaction for an allegedly unfair price and as the result of an allegedly unfair process and by failing to disclose material information to stockholders regarding the proposed transaction.

The Company, Apollo and certain affiliates of Apollo are also defendants in the Ohio and Delaware lawsuits, and are alleged to have aided and abetted the directors breaches of fiduciary duties. All of these Ohio and Delaware lawsuits seek, among other things, declaratory and injunctive relief. The Company and its directors believe that the allegations against them lack merit and intend to defend the lawsuits vigorously.

On October 4, 2013, the Company filed a complaint in the Court of Chancery of the State of Delaware, captioned *Cooper Tire & Rubber Co. v. Apollo (Mauritius) Holdings Pvt. Ltd. et al.*, No. 8980-VCG, asking that certain affiliates of Apollo be required to use their reasonable best efforts to close the then-pending merger transaction as expeditiously as possible and also seeking, among other things, declaratory relief and damages. On October 14, 2013, the Apollo entities filed counterclaims against the Company, seeking declaratory and injunctive relief.

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On November 8, 2013, after expedited proceedings, the court found that the Apollo entities had not materially breached the merger agreement. On December 19, 2013, the Apollo entities moved for an entry of declaratory judgment, seeking a declaration that the conditions to closing the then-pending transaction were not satisfied before the November 2013 trial. On December 30, 2013, the Company terminated the merger agreement with the Apollo entities, and requested payment of the reverse termination fee, which the Apollo entities have refused to do. On January 27, 2014, the court determined that it would proceed with a decision on the Apollo entities motion for declaratory judgment, once briefing on that motion is complete.

Federal Securities Litigation

On January 17, 2014, alleged stockholders of the Company filed a putative class-action lawsuit against the Company and certain of its officers in the United States District Court for the District of Delaware relating to the terminated Apollo transaction. That lawsuit, captioned *OFI Risk Arbitrages, et al. v. Cooper Tire & Rubber Co., et al.,* No. 1:14-cv-00068-LPS, generally alleges that the Company and certain officers violated the federal securities laws by issuing allegedly misleading disclosures in connection with the terminated transaction and seeks, among other things, damages. The Company and its officers believe that the allegations against them lack merit and intend to defend the lawsuit vigorously.

Stockholder Derivative Litigation

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

Certain Litigation Related to Joint Venture in China

On July 29, 2013, the Company s Cooper Chengshan Tire joint venture in China was named as a defendant and a subsidiary of the Company was named as a third party in a complaint filed in the Weihai Intermediate People s Court, Weihai, China, by the Company s joint venture partner. In connection with the execution of the CCT Agreement (See Footnote 22 - Subsequent Events, below), this complaint was dismissed.

Item 4. RESERVED

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EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and all positions and offices held by all executive officers of the Company are as follows:

Name	Age	Executive Office Held	Business Experience
Roy V. Armes	61	Chairman of the Board, Chief Executive Officer, President and Director	Chairman of the Board since December 2007, Chief Executive Officer, President and Director since January 2007.
Brenda S. Harmon	62	Senior Vice President and Chief Human Resources Officer	Senior Vice President, Chief Human Resources Officer since December 2009. Previously Owner of Harmon Consulting Services since November 2008. Vice President Human Resources of Contech Construction Products, Inc., a privately held construction products and environmental solutions company from 2004 to 2008.
Bradley E. Hughes	52	Vice President, Chief Financial Officer and Treasurer	Vice President and Chief Financial Officer since November 2009. Previously Global Product Development Controller with Ford Motor Corporation, an automobile manufacturer, since 2008; Finance Director, Ford South America Operations from 2005 to 2008.
Harold C. Miller	61	Vice President and President International Tire Operations	Vice President since March 2002.
Christopher E. Ostrander	45	Vice President and President, North American Tire Operations	Vice President since January 2011. Previously Vice President and General Manager of the Torque Control Products Division at Eaton Corporation from 2008 to 2010; General Manager from 2007 to 2008; Multi-Business Unit Manager from 2006 to 2007.
Stephen Zamansky	43	Vice President, General Counsel and Secretary	Vice President, General Counsel & Secretary since April 2011. Previously Senior Vice President, General Counsel & Secretary of Trinity Coal Corporation, a privately held mining company, from 2008 to 2011. Trinity was acquired by the Essar Group in 2010 and commenced bankruptcy proceedings in March 2013.

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PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market information

Cooper Tire & Rubber Company common stock is traded on the New York Stock Exchange under the symbol CTB. The following table sets forth, for the periods indicated, the high and low sales prices of the common stock as reported in the consolidated reporting system for the New York Stock Exchange Composite Transactions:

Year Ended December 31, 2012	High	Low
First Quarter	$ 17.99	$ 13.89
Second Quarter	17.99	13.82
Third Quarter	23.40	15.74
Fourth Quarter	25.65	18.38

Year Ended December 31, 2013	**High**	**Low**
First Quarter	**$ 28.24**	**$ 24.09**
Second Quarter	**34.79**	**23.04**
Third Quarter	**33.26**	**28.61**
Fourth Quarter	**31.49**	**20.55**

Five-Year Stockholder Return Comparison

The SEC requires that the Company include in its annual report to stockholders a line graph presentation comparing cumulative five-year stockholder returns on an indexed basis with the Standard & Poor s (S&P) Stock Index and either a published industry or line-of-business index or an index of peer companies selected by the Company. The Company in 1993 chose what is now the S&P 500 Auto Parts & Equipment Index as the most appropriate of the nationally recognized industry standards and has used that index for its stockholder return comparisons in all of its annual reports since that time.

The following chart assumes three hypothetical $100 investments on December 31, 2008, and shows the cumulative values at the end of each succeeding year resulting from appreciation or depreciation in the stock market price, assuming dividend reinvestment.

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Total Return To Shareholders

(Includes reinvestment of dividends)

	ANNUAL RETURN PERCENTAGE Years Ending				
Company / Index	**Dec09**	**Dec10**	**Dec11**	**Dec12**	**Dec13**
Cooper Tire & Rubber Company	241.72	20.34	-39.09	85.24	-3.70
S&P 500 Index	26.46	15.06	2.11	16.00	32.39
S&P 500 Auto Parts & Equipment	54.68	42.78	-17.74	4.45	64.76

		INDEXED RETURNS Years Ending				
Company / Index	**Base Period Dec08**	**Dec09**	**Dec10**	**Dec11**	**Dec12**	**Dec13**
Cooper Tire & Rubber Company	**100**	341.72	411.23	250.48	463.98	446.83
S&P 500 Index	**100**	126.46	145.51	148.59	172.37	228.19
S&P 500 Auto Parts & Equipment	**100**	154.68	220.85	181.68	189.76	312.65

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(b) Holders

The number of holders of record at December 31, 2013 was 2,117.

(c) Dividends

The Company has paid consecutive quarterly dividends on its common stock since 1973. Future dividends will depend upon the Company s earnings, financial condition and other factors. Additional information on the Company s liquidity and capital resources can be found in Management s Discussion and Analysis of Financial Condition and Results of Operations. The Company s retained earnings are available for the payment of cash dividends and the purchases of the Company s shares. Quarterly dividends per common share for the most recent two years were as follows:

	2012		**2013**
March 31	$ 0.105	**March 29**	**$ 0.105**
June 30	0.105	**June 28**	**0.105**
September 30	0.105	**September 30**	**0.105**
December 30	0.105	**December 31**	**0.105**
Total:	$ 0.420	**Total:**	**$ 0.420**

(d) Issuer purchases of equity securities

There were no repurchases of Company stock during the fourth quarter of the year ended December 31, 2013.

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Item 6. SELECTED FINANCIAL DATA

(Dollar amounts in thousands except for per share amounts)

	Net Sales	Operating Profit (Loss)	Income from Continuing Operations Before Income taxes	Income from Continuing Operations available to Cooper Tire & Rubber Company common stockholders	Earnings Per Share from Continuing Operations available to Cooper Tire & Rubber Company common stockholders	
					Basic	Diluted
2009 (a)	2,763,942	156,269	115,523	93,359	1.57	1.54
2010 (a)	3,342,708	188,374	159,826	116,331	1.90	1.86
2011 (b)	3,907,820	163,301	134,146	253,503	4.08	4.02
2012	4,200,836	396,962	368,450	220,371	3.52	3.49
2013	3,437,524	240,714	212,971	109,198	1.75	1.73

	Stockholders Equity	Redeemable Noncontrolling Shareholders Interests	Long-term Debt	Total Assets	Net Property, Plant & Equipment
2009	380,524	83,528	330,971	2,100,340	839,402
2010	523,050	71,442	320,724	2,305,537	824,735
2011	697,890		329,496	2,509,918	899,044
2012	908,416		336,142	2,801,160	929,255
2013	1,156,810		320,959	2,737,552	974,269

	Capital Expenditures	Depreciation and Amortization	Dividends Per Share	Average Common Shares (000s)	Number of Employees
2009	79,333	123,511	0.42	59,439	12,568
2010	119,738	123,721	0.42	61,299	12,898
2011	155,406	122,899	0.42	62,150	12,890
2012	187,336	128,916	0.42	62,561	13,550
2013	180,448	134,751	0.42	63,327	13,280

(a) The Company s continuing operations recorded $48,718 and $20,649 of restructuring charges in 2009 and 2010, respectively, associated with the closures of its Albany, Georgia manufacturing facility and other initiatives.

(b) The Company s continuing operations recorded the partial release of a valuation allowance on deferred tax assets of $167,224 during 2011. The Redeemable noncontrolling shareholders interests were moved to Noncontrolling shareholders interests in consolidated subsidiaries within Equity at December 31, 2011 when the put option held by the Company s joint venture partner in Cooper Chengshan Tire expired unexercised.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business of the Company

The Company manufactures and markets passenger car, light and medium truck, motorsport and motorcycle tires which are sold globally, primarily in the replacement tire market to 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 Company faces both general industry and company-specific challenges. These include highly volatile raw material costs, increasing product complexity and pressure from competitors with manufacturing in lower-cost regions. To address these challenges and position the Company for future success, the Company continues to execute towards strategic imperatives outlined in its Strategic Plan. The three strategic imperatives, originally communicated in February 2008, are building a sustainable cost competitive position, driving top-line profitable growth and building organizational capabilities and enablers to support strategic goals.

In recent years, the Company expanded operations in what are considered lower-cost countries. These initiatives include the Cooper Kunshan Tire manufacturing operation in the PRC, the Cooper Chengshan joint venture in the PRC, a joint venture manufacturing operation in Mexico and a manufacturing facility in Serbia. Products from these operations provide a lower-cost source of tires for existing markets and have been used to expand the Company s market share in Mexico, Eastern Europe and the PRC. Through a variety of other projects, the Company also has improved the competitiveness of its manufacturing operations in the United States.

On June 12, 2013, the Company and Apollo announced the execution of the Agreement and Plan of Merger under which a wholly-owned subsidiary of Apollo was to acquire the Company in an all-cash transaction valued at approximately $2.5 billion. On December 30, 2013, the Company terminated the Agreement and Plan of Merger.

On July 13, 2013, workers at CCT began a temporary work stoppage related to concerns regarding the pending merger between Apollo and the Company. On August 17, 2013, those workers returned to work on a limited basis to manufacture only non-Cooper-branded products, but took other disruptive actions, including denying access to certain representatives of the Company and withholding certain business and financial information. On December 30, 2013, the Company terminated the merger agreement. Since this date, representatives of the Company regained access to the CCT facilities, including its business and financial information and the operation has resumed production of Cooper-branded products.

The following discussion of financial condition and results of operations should be read together with Selected Financial Data, the Company s consolidated financial statements and the notes to those statements and other financial information included elsewhere in this report.

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, capital resources and critical accounting policies of the Company. The Company s future results may differ materially from those indicated in the forward-looking statements. See Risk Factors in Item 1A for information regarding forward-looking statements.

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Consolidated Results of Operations

(Dollar amounts in millions except per share amounts)

	2011	% Change	2012	% Change	2013
Revenues:					
North American Tire	$ 2,837.6	9.1%	$ 3,095.6	-19.7%	$ 2,486.6
International Tire	1,557.1	1.2%	1,576.0	-21.2%	1,241.5
Eliminations	(486.9)	-3.3%	(470.8)	-38.6%	(288.9)
Net sales	$ 3,907.8	7.5%	$ 4,200.8	-18.1%	$ 3,439.2
Operating profit (loss):					
North American Tire	$ 77.4	282.3%	$ 295.9	-31.0%	$ 204.2
International Tire	102.7	39.8%	143.6	-41.5%	84.0
Eliminations	(1.4)	307.1%	(5.7)	-159.6%	3.4
Unallocated corporate charges	(15.4)	139.0%	(36.8)	38.3%	(50.9)
Operating profit	163.3	143.1%	397.0	-39.4%	240.7
Interest expense	(36.2)	-18.5%	(29.5)	-5.4%	(27.9)
Interest income	3.2	-21.9%	2.5	-68.0%	0.8
Other - net	3.8	-139.5%	(1.5)	-60.0%	(0.6)
Income before income taxes	134.1	174.8%	368.5	-42.2%	213.0
Provision (benefit) for income taxes	(135.5)	n/m	116.0	-31.6%	79.4
Net income	269.6	-6.3%	252.5	-47.1%	133.6
Noncontrolling shareholders interests	(16.1)	99.4%	(32.1)	-29.6%	(22.6)
Net income attributable to Cooper Tire & Rubber Company	$ 253.5	-13.1%	$ 220.4	-49.6%	$ 111.0
Basic earnings per share	$ 4.08	-13.7%	$ 3.52	-50.3%	$ 1.75
Diluted earnings per share	$ 4.02	-13.2%	$ 3.49	-50.4%	$ 1.73

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2013 versus 2012

Consolidated net sales for 2013 were $3,439 million, a decrease of $762 million from 2012. The decrease in net sales was the result of reduced unit volumes ($505 million) and less favorable pricing and mix ($276 million). The International Tire Operations segment experienced favorable exchange rates ($19 million). The labor issues at CCT accounted for $226 million of the reduction in unit volumes across both segments.

The Company recorded operating profit in 2013 of $241 million, a decrease of $156 million compared with 2012. The negative impact of the labor issues at CCT on operating profit was $56 million in 2013. The labor issues resulted in reduced volume ($47 million) across both segments and manufacturing inefficiencies ($9 million) in the International Tire Operations segment. Additionally, the Company incurred $18 million of selling, general and administrative costs associated with the Agreement and Plan of Merger. The International Tire Operations segment operating profit included start-up costs related to the Company s operations in Serbia ($6 million) and a pension curtailment gain ($7 million) in 2012, neither of which recurred in 2013. The 2012 results also include $29 million of costs incurred related to labor issues at the Findlay, Ohio manufacturing facility within the North American Tire Operations segment.

In addition to the items described above, operating profit in 2013 included lower raw material costs ($277 million) and lower products liability charges ($15 million), which were offset by unfavorable pricing and mix ($268 million) and lower unit volumes ($81 million). Manufacturing cost efficiencies were $40 million unfavorable when compared with 2012, which includes the costs associated with production curtailments ($34 million) incurred in the North American Tire Operations segment in 2013. Other operating costs, including increased distribution costs associated with carrying higher inventories, were unfavorable ($13 million) compared with 2012.

The Company experienced decreases in the costs of certain of its principal raw materials during 2013 compared with 2012. The principal raw materials for the Company include natural rubber, synthetic rubber, carbon black, chemicals and steel reinforcement components. Approximately 65 percent of the Company s raw materials are petroleum-based. Substantially all U.S. inventories have been valued using the LIFO method of inventory costing, which accelerates the impact to cost of goods sold from changes to raw material prices.

The Company strives to assure raw material and energy supply and to obtain the most favorable pricing possible. For natural rubber and natural gas, procurement is managed through a combination of buying forward of production requirements and utilizing the spot market. For other principal materials, procurement arrangements include supply agreements that may contain formula-based pricing based on commodity indices, multi-year agreements or spot purchase contracts. While the Company uses these arrangements to satisfy normal manufacturing demands, the pricing volatility in these commodities contributes to the difficulty in managing the costs of raw materials.

Products liability expenses totaled $89 million and $104 million in 2013 and 2012, respectively. The change in the expense results from claim settlements and adjustments to existing reserves based on the Company s quarterly comprehensive review of outstanding claims. Additional information related to the Company s accounting for products liability costs appears in the Critical Accounting Policies portion of the MD&A.

Selling, general and administrative expenses were $275 million (8.0 percent of net sales) in 2013 and $257 million (6.1 percent of net sales) in 2012. Selling, general and administrative expenses included costs incurred relating to the Agreement and Plan of Merger ($18 million) and increased capitalized software amortization expense and professional service support fees related to the Company s new ERP system. The Company s continued investment in Cooper brands globally also contributed to higher costs in 2013. These increases were partially offset by lower incentive related expenses. Lower net revenue also contributed to the increase in selling, general and administrative expenses as a percent of sales.

Interest expense decreased $2 million in 2013 from 2012, primarily as the result of lower debt levels.

Interest income and other income have remained relatively constant compared to 2012.

For the year ended December 31, 2013, the Company recorded an income tax expense of $79 million on income from continuing operations before income taxes of $213 million, prior to the deduction of noncontrolling shareholders interests of $23 million. Comparable amounts for 2012 were an income tax expense of $116 million on income from continuing operations before income taxes of $368 million.

Worldwide tax expense is impacted significantly by the mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances. Tax expense for 2013 has decreased from prior year primarily due to decreased pretax earnings.

The effects of inflation in areas other than raw materials and utilities did not have a material effect on the results of operations of the Company in 2013.

2012 versus 2011

Consolidated net sales for 2012 were $4,201 million, $293 million higher than 2011. The increase in net sales was the result of higher unit volumes ($227 million), favorable pricing and mix ($41 million) and favorable currency translation ($25 million).

The Company recorded operating profit in 2012 of $397 million, an increase of $234 million compared with 2011. Lower raw material costs ($303 million), higher unit volumes ($32 million) and favorable pricing and mix ($7 million) contributed to the higher operating profit in 2012. Increased selling, general and administrative costs ($76 million), higher manufacturing costs ($7 million) and high products liability charges ($6 million) partially offset the increases to the Company s operating profit. Other operating costs were unfavorable ($28 million), including increased pension expenses and start-up costs related to the Company s operations in Serbia. Higher incentive compensation costs, resulting from higher profits, affected selling, general and administrative costs and other costs. The International Tire Operations segment had a $7 million pension curtailment gain in the second quarter of 2012.

Manufacturing cost efficiencies were $7 million unfavorable when compared with 2011. The 2012 results include $29 million of cost incurred in the first quarter related to labor issues at the Findlay, Ohio manufacturing facility. In 2011, $11 million of costs were incurred during the fourth quarter related to these labor issues.

The Company experienced decreases in the costs of certain of its principal raw materials in 2012 compared with 2011.

Products liability expenses totaled $104 million and $98 million in 2012 and 2011, respectively. The change in the expense resulted from adjustments to existing reserves based on the Company s quarterly comprehensive review of outstanding claims.

Selling, general and administrative expenses were $257 million (6.1 percent of net sales) in 2012 compared with $182 million (4.6 percent of net sales) in 2011. The change in selling, general and administrative expenses was due primarily to increased costs related to brand investments, including selling expenses, incentive based compensation and increases in accruals for stock-based liabilities.

Interest expense decreased $7 million in 2012 from 2011. The decrease is primarily a result of lower debt levels. Interest income remained consistent with 2011.

Other income decreased $5 million in 2012 compared to 2011, primarily as a result of the change in accounting for COOCSA in 2011. COOCSA was treated as an unconsolidated subsidiary prior to the acquisition of an additional 20 percent ownership in the first quarter of 2011. In connection with its increased investment in COOCSA, the Company recorded a gain of $5 million in 2011 on its original investment, which represented the excess of the fair value over the carrying value of the investment as of the transaction date.

For the year ended December 31, 2012, the Company recorded an income tax expense of $116 million on income from continuing operations before income taxes of $368 million, prior to the deduction of noncontrolling shareholders interests of $32 million. Comparable amounts for 2011 were an income tax benefit of $135 million on income from continuing operations before income taxes of $134 million. The income tax benefit in 2011 included $167 million as a result the release of the majority of its U.S. valuation allowance described below.

Worldwide tax expense is impacted significantly by the mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances. Tax expense for 2012 has increased significantly over prior year primarily due to increased pretax earnings and the benefit of the release of the majority of its U.S. valuation allowance included in 2011.

The effects of inflation in areas other than raw materials and utilities did not have a material effect on the results of operations of the Company in 2012.

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North American Tire Operations Segment

	2011	Change %	2012	Change %	2013
(Dollar amounts in millions)					
Sales	$ 2,837.6	9.1%	$ 3,095.6	-19.7%	$ 2,486.6
Operating profit (loss)	$ 77.4	282.3%	$ 295.9	-31.0%	$ 204.2
Operating margin	2.7%	6.9 points	9.6%	(1.4) points	8.2%
United States unit shipments changes:					
Passenger tires					
Segment		-1.0%		-13.4%	
RMA members		-1.7%		-1.7%	
Total Industry		-2.5%		4.4%	
Light truck tires					
Segment		7.5%		-11.9%	
RMA members		1.8%		-0.2%	
Total Industry		-0.1%		1.3%	
Total light vehicle tires					
Segment		0.4%		-13.1%	
RMA members		-1.3%		-1.5%	
Total Industry		-2.2%		4.0%	
Total segment unit shipment changes		1.3%		-14.5%	

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

Overview

The North American Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. In addition to manufacturing tires in the U.S., the segment has a joint venture manufacturing operation in Mexico, COOCSA. The segment also distributes tires for racing, medium truck and motorcycles that are manufactured at the Company s subsidiaries. Major distribution channels and customers include independent tire dealers, wholesale distributors, regional and national retail tire chains, and large retail chains that sell tires as well as other automotive products. The segment does not currently sell its products directly to end users, except through three Company-owned retail stores. The segment sells a limited number of tires to original equipment manufacturers.

2013 versus 2012

Sales

Net sales of the North American Tire Operations segment decreased $609 million, or 19.7 percent from 2012. The decrease in sales was a result of lower unit volumes ($450 million) and unfavorable pricing and mix ($159 million). Unit shipments for the segment decreased 14.5 percent from 2012. In the U.S., the segment s unit shipments of total light vehicle tires decreased 13.1 percent in 2013 compared with 2012. This decrease compares with a 1.5 percent decrease in total light vehicle shipments experienced by the members of the RMA, and a 4.0 percent increase in total light vehicle shipments experienced for the total industry (which includes an estimate for non-RMA members). The reduced volume in the North American segment is a result of increased competition from imports, primarily on private label and lower value entry level consumer tires. Additionally, volumes were impacted by the effects on shipping efficiency resulting from the continued implementation of an ERP system in the U.S. while the labor issues at CCT accounted for $88 million of the reduction in unit volumes for the year.

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Operating Profit

Operating profit for the segment decreased $92 million to $204 million in 2013. Lower raw material costs ($176 million) and lower products liability charges ($15 million) were offset by unfavorable pricing and mix ($161 million) and lower unit volumes ($95 million), including $19 million as a result of the labor issues at CCT. Selling, general and administrative costs ($7 million) were higher in 2013 due to investments in driving brand awareness and increased capitalized software amortization expense, partially offset by lower incentive related compensation expense. Other operating costs, including increased distribution costs associated with carrying higher inventories, were unfavorable ($14 million) compared with the same period in 2012.

Manufacturing cost efficiencies for 2013 were $6 million unfavorable, which includes the costs associated with production curtailments ($34 million) incurred in 2013. 2012 results include $29 million of costs incurred related to labor issues at the Findlay, Ohio manufacturing facility.

The segment s internally calculated raw material index of 216 during the year was a decrease of 10.5 percent from 2012.

2012 versus 2011

Sales

Net sales of the North American Tire Operations segment increased by $258 million, or 9.1 percent from 2011. The increase in sales was the result of favorable pricing and mix ($140 million) and increased unit volumes ($118 million). Unit shipments for the segment increased 4.2 percent compared with 2011. In the U.S., the segment s unit shipments of total light vehicle tires increased 3.4 percent in 2012 compared with 2011. This increase compared to a 4.7 percent decrease in total light vehicle shipments experienced by all members of the RMA and a 1.9 percent decrease for the total industry (which includes an estimate for non-RMA members). In 2012, the segment outperformed the industry in the unit shipments of broadline tires, as well as ultra-high performance, light truck and SUV tires. Shipments of the Roadmaster brand commercial tires, which are excluded from light vehicle shipments, were up 8.2 percent from 2011, also outperforming the industry.

Operating Profit

Operating profit for the segment increased $218 million to $296 million in 2012. The increase in operating profit was driven by lower raw material costs ($169 million), favorable price and mix ($94 million) and increased unit volumes ($18 million). Increased selling, general and administrative costs ($32 million), higher products liability charges ($6 million) and higher manufacturing costs ($3 million) partially offset the increases to the Company s operating profit. Other operating costs were unfavorable ($22 million), including increased pension expenses. Higher incentive compensation costs, resulting from higher profits, affected selling, general and administrative costs and other costs.

Manufacturing efficiencies were $3 million unfavorable when compared with 2011. The 2012 results include $29 million of cost incurred in the first quarter related to labor issues at the Findlay, Ohio manufacturing facility. In 2011, $11 million of costs were incurred during the fourth quarter related to these labor issues.

The segment s internally calculated raw material index of 242 during the year was a decrease of 6.5 percent from 2011.

International Tire Operations Segment

	2011	Change %	2012	Change %	2013
(Dollar amounts in millions)					
Sales	$ 1,557.1	1.2%	$ 1,576.0	-21.2%	$ 1,241.5
Operating profit	$ 102.7	39.8%	$ 143.6	-41.5%	$ 84.0
Operating margin	6.6%	0.1 point	9.1%	(2.3) points	6.8%
Unit sales change		-5.8%		-11.5%	

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Overview

The International Tire Operations segment has affiliated operations in the U.K., the PRC and Serbia. The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for domestic and global markets. CCT manufactures and markets radial and bias medium truck tires as well as passenger and light truck tires for domestic and global markets. Cooper Kunshan Tire manufactures light vehicle tires and, under an agreement with the government of the PRC, these tires were exported to markets outside of the PRC through 2012. Beginning in 2013, tires produced at the facility also have been sold in the domestic market. The Serbian entity manufactures light vehicle tires primarily for the European markets. The majority of the tires manufactured by the segment are sold in the replacement market, with a relatively small percentage currently sold to OEMs.

2013 versus 2012

Sales

Net sales of the International Tire Operations segment for 2013 decreased $334 million, or 21.2 percent from 2012. The decrease in sales was a result of lower unit volumes ($206 million) and unfavorable pricing and mix ($147 million). The segment experienced favorable exchange rates in 2013 ($19 million). Domestic shipments in the PRC were negatively impacted by the work stoppage and other labor disruptions at CCT. In addition, intercompany shipments to North America were lower primarily due to the work stoppage and other labor disruptions at CCT. The labor issues at CCT accounted for $208 million of the reduction in unit volumes in 2013.

Operating Profit

Operating profit for the segment decreased $60 million to $84 million in 2013. The negative impact of the labor issues at CCT on operating profit was $36 million in 2013. The labor issues resulted in reduced volume ($27 million) and manufacturing inefficiencies ($9 million). The International Tire Operations segment operating profit included start-up costs related to the Company s operations in Serbia ($6 million) and a pension curtailment gain ($7 million) in 2012, neither of which recurred in 2013.

Lower raw material costs ($128 million) and decreased selling, general and administrative costs ($4 million) were offset by unfavorable pricing and mix ($140 million), lower unit volumes in addition to the effects of CCT ($11 million) and unfavorable manufacturing efficiencies ($5 million). Other cost changes were favorable ($1 million) compared with 2012.

2012 versus 2011

Sales

Net sales of the International Tire Operations segment in 2012 increased by $19 million, or 1.2 percent, from the sales levels achieved in 2011. The segment increase reflects higher unit volumes ($170 million) and favorable currency translation ($25 million), which were partially offset by lower pricing and mix ($176 million). The segment s increase in volume was the result of higher unit sales of truck and bus radial tires, as well as increased sales of light vehicle tires as the segment continued its efforts to expand distribution and supply of these tires in the market.

Operating Profit

Operating profit for the segment in 2012 was $41 million higher than 2011. The increase in operating profit was due to lower raw material costs ($193 million) and increased unit volumes ($14 million). These improvements were partially offset by lower pricing and mix ($142 million) and unfavorable manufacturing efficiencies ($4 million). Selling, general and administrative charges were higher ($22 million) as a result of higher selling costs associated with increased sales volume, higher advertising spend and additional investments in the distribution network in the Chinese market. Start-up costs related to the Company s operations in Serbia ($6 million) reduced operating profit in 2012. The segment had a $7 million pension curtailment gain in the second quarter of 2012.

Outlook for the Company

The Company is viewing 2014 with cautious optimism as the year looks to be another period of continuing and new challenges. Demand for tires will vary by region and likely remain sluggish compared to historical growth rates in some key markets.

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

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

The Company expects raw material prices to remain volatile. First quarter 2014 raw material prices are expected to be approximately 3 percent lower compared to the fourth quarter of 2013. On a longer term basis the Company expects raw material prices to generally increase, with periods of volatility. The industry has demonstrated an ability to price to help offset raw material cost volatility, but these price changes typically lag the raw material price changes.

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

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

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

Liquidity and Capital Resources

Generation and uses of cash - Net cash provided by operating activities of continuing operations was $272 million in 2013, a decrease from $454 million cash provided in 2012. During 2013, net income provided $134 million and other non-cash charges totaled $217 million. Changes in working capital accounts consumed $79 million. Inventory balances decreased as a result of lower raw material purchases and lower finished goods inventory due to the situation at CCT and production curtailments in North America. Accounts payable balances have decreased as a result of lower raw material purchases. The use of cash in Other items is due primarily to the reduction in accrued products liability as payments exceeded the provision and funding of the pension retirement trusts.

Net cash used in investing activities during 2013 reflects capital expenditures of $180 million, a decrease of $7 million from 2012. The Company spent $50 million and $18 million in 2012 and 2013, respectively, related to the implementation of its global ERP system. During the first quarter of 2012, the Company acquired assets in Serbia for approximately $19 million. During the first quarter of 2011, the Company invested $17 million to increase its ownership percentage in COOCSA to approximately 58 percent, and because of the increase in voting rights, now consolidates the results of those operations.

The Company s capital expenditure commitments at December 31, 2013 were $17 million and are included in the Unconditional purchase line of the Contractual Obligations table which appears later in this section.

During 2011, 2012 and 2013, the Company repaid $23 million, $100 million and $12 million of short-term notes, respectively. During this same period, the Company borrowed additional funds using long-term debt and the Company repaid $1 million, $22 million and $24 million of maturing long-term debt in 2011, 2012 and 2013, respectively. 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 were $26 million in 2011 and 2012 and $27 million in 2013. The Company has maintained a quarterly dividend of 10.5 cents per share in each quarter during the three years ending December 31, 2013. The Company also paid $6 million, $3 million and $10 million in dividends to noncontrolling shareholders in the Cooper Chengshan and COOCSA joint ventures in 2011, 2012 and 2013, respectively.

During 2013, stock options were exercised to acquire 93,845 shares of common stock and the Company recorded $0.5 million of excess tax benefits on equity instruments. During 2012, stock options were exercised to acquire 798,967 shares of common stock and the Company recorded $2.5 million of excess tax benefits on equity instruments. During 2011, stock options were exercised to acquire 315,785 shares of common stock and the Company recorded $0.4 million of excess tax benefits on equity instruments.

Available cash, credit facilities and contractual commitments - At December 31, 2013, the Company had cash and cash equivalents totaling $398 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 has a July 2016 maturity date. The Company also has an accounts receivable securitization facility with a $175 million limit which was amended in August 2012 to extend the maturity until June 2015. These credit facilities have no significant financial covenants until available credit is less than specified amounts. At December 31, 2013, the Company was not in compliance with the covenants requiring the Company to furnish financial statements, as the third quarter Form 10-Q had not been filed. The Company filed the third quarter Form 10-Q on February 28, 2014 and is now in compliance with these covenants. The credit facilities were undrawn at December 31, 2013, except for amounts used to back letters of credit. The Company s additional borrowing capacity, net of amounts used to back letters of credit and based on eligible collateral through use of its credit facility with its bank group and its accounts receivable securitization facility at December 31, 2013, would have been $242 million.

The Company s consolidated operations in Asia have annual renewable unsecured credit lines that provide up to $453 million of borrowings and do not contain financial covenants. The additional borrowing capacity on the Asian credit lines, based on eligible collateral and the short-term notes payable, totaled $407 million at December 31, 2013.

The Company believes that its cash and cash equivalents balances along with available cash from operating cash flows and credit facilities will be adequate to fund its needs, including working capital requirements, projected capital expenditures, including its portion of capital expenditures in partially-owned subsidiaries, and dividend goals. The entire amount of short-term notes payable outstanding at December 31, 2013 is primarily debt of consolidated subsidiaries. The Company expects its subsidiaries to refinance or pay these amounts during 2014.

In connection with the Company s acquisition of its initial interest in Cooper Chengshan, beginning January 1, 2009 and continuing through December 31, 2011, the noncontrolling shareholders had the right to sell and, if exercised, the Company had the obligation to purchase, the remaining 49 percent noncontrolling interest share at a minimum price of $63 million. In 2009, the Company received notification from a noncontrolling shareholder of its intention to exercise its put option and after receiving governmental approvals in 2010, the Company purchased the 14 percent share for $18 million. The remaining noncontrolling shareholder had the right to sell its 35 percent share to the Company at a minimum price of $45 million. This right expired on December 31, 2011.

The Company s cash requirements relating to contractual obligations at December 31, 2013 are summarized in the following table:

(Dollar amounts in thousands)		Payment Due by Period			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt	$ 330,165	$ 17,268	$ 22,439	$	$ 290,458
Capital lease obligations and other	8,662	600	1,200	1,200	5,662
Interest on debt and capital lease obligations	207,314	25,195	47,713	46,255	88,151
Operating leases	91,103	23,692	30,698	18,050	18,663
Notes payable (a)	22,105	22,105			
Unconditional purchase (b)	141,963	141,963			
Postretirement benefits other than pensions (c)	252,866	14,213	30,000	30,000	178,653
Pensions (d)	292,108	45,000	100,000	100,000	47,108
Other long-term liabilities (e)	33,214	1,058	12,247	802	19,107
Total contractual cash obligations	$ 1,379,500	$ 291,094	$ 244,297	$ 196,307	$ 647,802

(a) Financing obtained from financial institutions in the PRC and Mexico to support the Company s operations there.
(b) Noncancelable purchase order commitments for capital expenditures and raw materials, principally natural rubber, made in the ordinary course of business.

(c) Represents benefits payments for postretirement benefits other than pensions liability.
(d) Represents Company contributions to the retirement trusts based on current assumptions.
(e) Deferred compensation, warranty reserve, nonqualified benefit plans and other non-current liabilities.

Credit agency ratings Standard & Poor s has rated the Company s long-term corporate credit and senior unsecured debt at BB- with a negative outlook. Moody s Investors Service has assigned a B1 corporate family rating and a B2 rating to senior unsecured debt also with a negative outlook.

New Accounting Standards

For a discussion of recent accounting pronouncements and their impact on the Company, see the Significant Accounting Policies - Accounting pronouncements note to the consolidated financial statements.

Critical Accounting Policies

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. When more

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than one accounting principle, or the method of its application, is generally accepted, the Company selects the principle or method that is appropriate in its specific circumstances. The Company s accounting policies are more fully described in the Significant Accounting Policies note to the consolidated financial statements. Application of these accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes that of its significant accounting policies, the following may involve a higher degree of judgment or estimation than other accounting policies.

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

Effective April 1, 2003, the Company established a new excess liability insurance program. The new program covers the Company s products liability claims occurring on or after April 1, 2003 and is occurrence-based insurance coverage which includes a relatively high per claim retention limit.

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

Pursuant to applicable accounting rules, the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. The Company uses a range of settlements because an average settlement cost would not be meaningful since the products liability claims faced by the Company are unique and widely variable and 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 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.

During 2012, the Company increased its products liability reserve by $72 million. The addition of another year of self-insured incidents accounted for $49 million of this increase. The Company revised its estimates of future settlements for unasserted and premature claims. These revisions increased the reserve by $9 million. Finally, changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by $14 million.

During 2013, the Company increased its products liability reserve by $60 million. The addition of another year of self-insured incidents accounted for $51 million of this increase. The Company revised its estimates of future settlements for unasserted and premature claims. These revisions increased the reserve by $8 million. Finally, changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by $1 million.

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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.

During 2012, the Company paid $73 million and during 2013, the Company paid $77 million to resolve cases and claims. The Company s products liability reserve balance at December 31, 2012 totaled $206 million (current portion of $70 million). At December 31, 2013, the products liability reserve balance totaled $189 million (current portion of $70 million).

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.

Products liability costs totaled $98 million, $104 million and $89 million in 2011, 2012 and 2013, respectively.

Income Taxes The Company is required to make certain estimates and judgments to determine income tax expense for financial statement purposes. The more critical estimates and judgments include assessing uncertain tax positions and measuring unrecognized tax benefits, determining whether deferred tax assets will be realized and whether foreign earnings will be indefinitely reinvested. Changes to these estimates may result in an increase or decrease to tax expense in subsequent periods.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. The Company applies the rules under Accounting Standards Codification (ASC) 740-10 in its *Accounting for Uncertainty in Income Taxes* for uncertain tax positions using a more likely than not recognition threshold. Pursuant to these rules, the Company will initially recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits of the tax position, that such a position will be sustained upon examination by the relevant tax authorities. If the tax benefit meets the more likely than not threshold, the measurement of the tax benefit will be based on the Company s estimate of the ultimate amount to be sustained if audited by the taxing authority. The Company recognizes tax liabilities in accordance with ASC 740-10 and adjusts these liabilities when judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

The Company s liability for unrecognized tax benefits, exclusive of interest, totaled approximately $6 million at December 31, 2013. In accordance with Company policy, the liability relating to pre-2011 years was released or reclassified following the effective settlement of a U.S. federal income tax examination for years prior to 2011. The unrecognized tax benefits at December 31, 2013 relate to uncertain tax positions in tax years 2011 through 2013.

The Company must assess the likelihood that it will be able to recover its deferred tax asset. Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating the Company s ability to recover deferred tax assets within the jurisdiction from which they arise, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies and results of recent operations. In projecting future taxable income, the Company begins with historical results adjusted for the results of discontinued operations and changes in accounting policies, and incorporates assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company uses to manage the underlying businesses. In evaluating the objective evidence that historical results provide, the Company considers three years of cumulative operating income (loss).

During 2011, the Company released the valuation allowance that was previously established related to most of its deferred tax assets in the United States, based upon its assessment of realizability of those assets. The Company continues to maintain a valuation allowance against a portion of its U.S. and non-U.S. deferred tax asset position at December 31, 2013, 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 and state tax credits by a valuation allowance of $22 million. In addition, the Company has recorded valuation allowances of $10 million relating primarily to non-U.S. net operating losses for a total valuation allowance of $32 million. In conjunction with the Company s ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when they are deemed to be realizable.

The Company generally considers the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs. In the event that the Company plans to repatriate foreign earnings, the income tax provision would be adjusted in the period it is determined that the earnings will no longer be indefinitely invested outside the United States. During 2014, the Company plans to remit dividends from two of its non-U.S. subsidiaries. As a result of this decision made in 2013, the Company provided incremental U.S. income and foreign withholding tax on these amounts. In the Company s judgment, the remaining portion of the Company s foreign earnings is considered to be indefinitely reinvested outside the United States. The Company has not recorded a deferred tax liability related to the U.S. federal and state income taxes and foreign withholding taxes on approximately $419 million of these undistributed earnings. It is not practicable to determine the amount of additional U.S. income taxes that could be payable upon remittance of these earnings since taxes payable would be reduced by foreign tax credits based upon income tax laws and circumstances at the time of distribution, plus the uncertainty in estimating the impacts of future exchange rates.

Impairment of long-lived assets The Company s long-lived assets include property, plant and equipment and other assets that are intangible. If an indicator of impairment exists for certain groups of property, plant and equipment or definite-lived intangible assets, the Company will compare the forecasted undiscounted cash flows attributable to the assets to their carrying values. If the carrying values exceed the undiscounted cash flows, the Company then determines the fair values of the assets. Then if the carrying values exceed the fair values of the assets, an impairment charge is recognized for the difference.

The Company assesses the potential impairment of its indefinite-lived assets at least annually or when events or circumstances indicate impairment may have occurred. The carrying value of these assets is compared to their fair value. If the carrying values exceed the fair values, then a hypothetical purchase price allocation is computed and the impairment charge, if any, is then recorded.

The Company cannot predict the occurrence of future impairment-triggering events. Such events may include, but are not limited to, significant industry or economic trends and strategic decisions made in response to changes in the economic and competitive conditions impacting the Company s businesses.

Pension and postretirement benefits The Company has recorded significant pension liabilities in the U.S. and the U.K. and other postretirement benefit liabilities in the U.S. that are developed from actuarial valuations. The determination of the Company s pension liabilities requires key assumptions regarding discount rates used to determine the present value of future benefits payments, expected returns on plan assets and the rates of future compensation increases. The discount rate is also significant to the development of other postretirement benefit liabilities. The Company determines these assumptions in consultation with its investment advisors and actuaries.

The discount rate reflects the rate used to estimate the value of the Company s pension and other postretirement liabilities for which they could be settled at the end of the year. When determining the discount rate, the Company discounted the expected pension disbursements over the next fifty years and based upon this analysis, the Company used a discount rate of 4.55 percent to measure its U.S. pension liabilities at December 31, 2013, which is higher than the 3.75 percent used at December 31, 2012. Similarly, the Company discounted the expected disbursements of its other postretirement benefit liabilities and based upon this analysis, the Company used a discount rate of 4.60 percent to measure it other postretirement liabilities at December 31, 2013, which is higher than the 3.60 percent used at December 31, 2012. A similar analysis was completed in the U.K. and the Company increased the discount rate used to measure its U.K. pension liabilities to 4.50 percent at December 31, 2013 from 4.40 percent at December 31, 2012.

The rate of future compensation increases is used to determine the future benefits to be paid for salaried and non-bargained employees, since the amount of a participant s pension is partially attributable to the compensation earned during his or her career. The rate reflects the Company s expectations over time for salary and wage inflation and the impacts of promotions and incentive compensation, which is typically tied to profitability. Effective July 1, 2009, the Company froze the Spectrum (salaried employees) Plan in the U.S. so this assumption is not applicable to valuing the pension liability. Effective April 6, 2012, the Company amended the Cooper Avon Pension Plan to freeze all future pension benefits so this assumption is not applicable to valuing the pension liability.

The assumed long-term rate of return on pension plan assets is applied to the market value of plan assets to derive a reduction to pension expense that approximates the expected average rate of asset investment return over ten or more years. A decrease in the expected long-term rate of return will increase pension expense, whereas an increase in the expected long-term rate will reduce pension expense. Decreases in the level of actual plan assets will serve to increase the amount of pension expense, whereas increases in the level of actual plan assets will serve to decrease the amount of pension expense. Any shortfall in the actual return on plan assets from the expected return will increase pension expense in future years due to the amortization of the shortfall, whereas any excess in the actual return on plan assets from the expected return will reduce pension expense in future periods due to the amortization of the excess.

The Company s investment strategy is to match assets to the cash flows of the pension obligations. The Company s current asset allocation for U.S. plans assets is 66 percent in equity securities, 30 percent in debt securities and 4 percent in cash. The Company s current asset allocation for U.K. plan assets is 51 percent in equity securities, 40 percent in bonds and 5 percent in property and infrastructure funds and 4 percent in cash. Equity security investments are structured to achieve a balance between growth and value stocks. The Company determines the annual rate of return on pension assets by first analyzing the composition

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of its asset portfolio. Historical rates of return are applied to the portfolio and may be adjusted based on a review by the Company s investment advisors and actuaries. Industry comparables and other outside guidance is also considered in the annual selection of the expected rates of return on pension assets.

The actual return on U.S. pension plans assets was approximately 14.00 percent in 2013 compared to an asset gain of approximately 12.00 percent in 2012. The actual return on U.K. pension plan assets approximated 11.40 percent in 2013 compared to an asset gain of 11.30 percent in 2012. The Company s estimate for the expected long-term return on its U.S. plan assets used to derive 2012 and 2013 pension expense was 7.00 percent. The expected long-term return on U.K. plan assets used to derive the 2012 and 2013 pension expense was 6.48 percent and 6.05 percent, respectively.

The Company has accumulated net deferred losses resulting from the shortfalls and excesses in actual returns on pension plan assets from expected returns and, in the measurement of pensions and other postretirement liabilities, decreases and increases in the discount rate and the rate of future compensation increases and differences between actuarial assumptions and actual experience totaling $523.2 million at December 31, 2013. These amounts are being amortized in accordance with the corridor amortization requirements of U.S. GAAP over periods ranging from 10 years to 14 years. Amortization of these net deferred losses was $46 million in 2012 and $53 million in 2013.

The Company has implemented household caps on the amounts of retiree medical benefits it will provide to certain retirees. The caps do not apply to individuals who retired prior to certain specified dates. Costs in excess of these caps will be paid by plan participants. The Company implemented increased cost sharing in 2004 in the retiree medical coverage provided to certain eligible current and future retirees. Since then cost sharing has expanded such that nearly all covered retirees pay a charge to be enrolled. See Item 1A. Risk Factors The Company s expenditures for pension and postretirement obligations could be materially higher than it has predicted if its underlying assumptions prove to be incorrect.

In accordance with U.S. GAAP, the Company recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its pension and other postretirement benefit (OPEB) plans and the net unrecognized actuarial losses and unrecognized prior service costs in the consolidated balance sheets. The unrecognized actuarial losses and unrecognized prior service costs (components of cumulative other comprehensive loss in the stockholders equity section of the balance sheet) will be subsequently recognized as net periodic pension cost pursuant to the Company s historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit costs in the same periods will be recognized as a component of other comprehensive income.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to fluctuations in interest rates and currency exchange rates from its financial instruments. The Company actively monitors its exposure to risk from changes in foreign currency exchange rates and interest rates. Derivative financial instruments are used to reduce the impact of these risks. See the Significant Accounting Policies - Derivative financial instruments and Fair Value of Financial Instruments notes to the consolidated financial statements for additional information.

The Company has estimated its market risk exposures using sensitivity analysis. These analyses measure the potential loss in future earnings, cash flows or fair values of market sensitive instruments resulting from a hypothetical ten percent change in interest rates or foreign currency exchange rates.

A decrease in interest rates by ten percent of the actual rates would have adversely affected the fair value of the Company s fixed-rate, long-term debt by approximately $14 million and $13 million at December 31, 2012 and December 31, 2013, respectively. An increase in interest rates by ten percent of the actual rates for the Company s floating rate long-term debt obligations would not have been material to the Company s results of operations and cash flows.

To manage the volatility of currency exchange exposures related to future sales and purchases, the Company first nets the exposures on a consolidated basis to take advantage of natural offsets. Then, for the residual portion, the Company enters into forward exchange contracts and purchases options with maturities of less than 12 months pursuant to the Company s policies and hedging practices. The changes in fair value of these hedging instruments are offset, in part or in whole, by corresponding changes in the fair value of cash flows of the underlying exposures being hedged. The Company s unprotected exposures to earnings and cash flow fluctuations due to changes in foreign currency exchange rates were not significant at December 31, 2012 and 2013.

The Company enters into foreign exchange contracts to manage its exposure to foreign currency denominated receivables and payables. The impact from a ten percent change in foreign currency exchange rates on the Company s foreign currency denominated obligations and related foreign exchange contracts would not have been material to the Company s results of operations and cash flows.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31

(Dollar amounts in thousands except per share amounts)

	2011	2012	**2013**
Net sales	$ 3,907,820	$ 4,200,836	**$ 3,439,233**
Cost of products sold	3,562,813	3,546,568	**2,923,042**
Gross profit	345,007	654,268	**516,191**
Selling, general and administrative	181,706	257,306	**275,477**
Operating profit	163,301	396,962	**240,714**
Interest expense	(36,191)	(29,546)	**(27,906)**
Interest income	3,190	2,560	**810**
Other - income (expense)	3,846	(1,526)	**(647)**
Income before income taxes	134,146	368,450	**212,971**
Provision (benefit) for income taxes	(135,457)	116,024	**79,406**
Net income	269,603	252,426	**133,565**
Net income attributable to noncontrolling shareholders interests	16,100	32,055	**22,552**
Net income attributable to Cooper Tire & Rubber Company	$ 253,503	$ 220,371	**$ 111,013**
Basic earnings per share:			
Net income attributable to Cooper Tire & Rubber Company common stockholders	$ 4.08	$ 3.52	**$ 1.75**
Diluted earnings per share:			
Net income attributable to Cooper Tire & Rubber Company common stockholders	$ 4.02	$ 3.49	**$ 1.73**

See Notes to Consolidated Financial Statements, pages 37 to 66.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31

(Dollar amounts in thousands except per share amounts)

	2011	2012	**2013**
Net income	$ 269,603	$ 252,426	**$ 133,565**
Other comprehensive income (loss)			
Cumulative currency translation adjustments			
Foreign currency translation adjustments	7,487	13,720	**18,730**
Currency loss recognized as part of acquisition of noncontrolling shareholder interest	4,893		
Cumulative currency translation adjustments	12,380	13,720	**18,730**
Financial instruments			
Change in the fair value of derivatives and marketable securities	9,189	(7,469)	**1,727**
Income tax benefit (expense) on derivative instruments	(899)	2,555	**(539)**
Financial instruments, net of tax	8,290	(4,914)	**1,188**
Postretirement benefit plans			
Amortization of actuarial loss	37,333	46,712	**52,849**
Amortization of prior service credit	(1,435)	(873)	**(566)**
Pension curtailment gain		(7,460)	
Actuarial gain (loss)	(162,065)	(97,972)	**158,589**
Income tax (expense) benefit on postretirement benefit plans	45,283	22,083	**(84,713)**
Foreign currency translation effect	169	199	**(1,366)**
Postretirement benefit plans, net of tax	(80,715)	(37,311)	**124,793**
Other comprehensive income (loss)	(60,045)	(28,505)	**144,711**
Comprehensive income	209,558	223,921	**278,276**
Less comprehensive income attributable to noncontrolling shareholders interests	16,525	34,198	**25,757**
Comprehensive income attributable to Cooper Tire & Rubber Company	$ 193,033	$ 189,723	**$ 252,519**

See Notes to Consolidated Financial Statements, pages 37 to 66.

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CONSOLIDATED BALANCE SHEETS

December 31

(Dollar amounts in thousands)

	2012	**2013**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 351,817	**$ 397,731**
Notes receivable	47,646	**86,965**
Accounts receivable, less allowances of $13,267 at 2012 and $16,996 at 2013	415,460	**360,405**
Inventories at lower of cost or market:		
Finished goods	380,839	**360,686**
Work in process	40,953	**35,576**
Raw materials and supplies	140,076	**120,913**
	561,868	**517,175**
Other current assets	72,904	**92,514**
Total current assets	1,449,695	**1,454,790**
Property, plant and equipment:		
Land and land improvements	48,677	**51,186**
Buildings	315,307	**326,635**
Machinery and equipment	1,740,748	**1,847,576**
Molds, cores and rings	224,456	**246,760**
	2,329,188	**2,472,157**
Less accumulated depreciation and amortization	1,399,933	**1,497,888**
Net property, plant and equipment	929,255	**974,269**
Goodwill	18,851	**18,851**
Intangibles, net of accumulated amortization of $48,340 at 2012 and $63,354 at 2013	150,017	**160,308**
Restricted cash	7,741	**2,759**
Deferred income tax assets	228,849	**111,644**
Other assets	16,752	**15,526**
Total assets	$ 2,801,160	**$ 2,738,147**

See Notes to Consolidated Financial Statements, pages 37 to 66.

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CONSOLIDATED BALANCE SHEETS

December 31

(Dollar amounts in thousands, except par value amounts)

(Continued)

	2012	**2013**
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	$ 32,836	**$ 22,105**
Accounts payable	379,867	**302,422**
Accrued liabilities	221,822	**211,090**
Income taxes payable	18,297	**11,098**
Current portion of long-term debt	2,319	**17,868**