COOPER TIRE & RUBBER CO
Form 10-Q
April 29, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

OR

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

Commission File No. 1-4329

COOPER TIRE & RUBBER COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE	**34-4297750**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**

701 Lima Avenue, Findlay, Ohio 45840

(Address of principal executive offices)

(Zip code)

(419) 423-1321

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 smaller reporting company)	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ¨

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

Number of shares of common stock of registrant outstanding as of Apr 26, 2019: 50,150,350

Part I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(Dollar amounts in thousands except per share amounts)

	Three Months Ended March 31,	
	2019	2018
Net sales	**$619,163**	$601,496
Cost of products sold	**530,904**	517,011
Gross profit	**88,259**	84,485
Selling, general and administrative expense	**56,855**	58,031
Restructuring expense	**4,973**	—
Operating profit	**26,431**	26,454
Interest expense	**(8,314)**	(7,691)
Interest income	**3,380**	2,315
Other pension and postretirement benefit expense	**(9,362)**	(6,986)
Other non-operating income (expense)	**1,380**	(1,658)
Income before income taxes	**13,515**	12,434
Provision for income taxes	**6,337**	3,451
Net income	**7,178**	8,983
Net income attributable to noncontrolling shareholders' interests	**199**	698
Net income attributable to Cooper Tire & Rubber Company	**$6,979**	$8,285
Earnings per share:		
Basic	**$0.14**	$0.16
Diluted	**$0.14**	$0.16

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(Dollar amounts in thousands except per share amounts)

	Three Months Ended March 31,	
	2019	2018
Net income	**$7,178**	$8,983
Other comprehensive income (loss):		
Cumulative currency translation adjustments	**9,307**	24,870
Financial instruments:		
Change in the fair value of derivatives	**(1,121)**	2,139
Income tax benefit (provision) on derivative instruments	**333**	(588)
Financial instruments, net of tax	**(788)**	1,551
Postretirement benefit plans:		
Amortization of actuarial loss	**9,233**	9,345
Amortization of prior service credit	**(102)**	(135)
Income tax provision on postretirement benefit plans	**(2,041)**	(2,210)
Foreign currency translation effect	**(1,460)**	(2,900)
Postretirement benefit plans, net of tax	**5,630**	4,100
Other comprehensive income	**14,149**	30,521
Comprehensive income	**21,327**	39,504
Less comprehensive income attributable to noncontrolling shareholders' interests	**1,178**	4,643
Comprehensive income attributable to Cooper Tire & Rubber Company	**$20,149**	$34,861

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 212,331**	$ 356,254
Notes receivable	**12,514**	5,737
Accounts receivable, less allowances of $6,154 at 2019 and $5,836 at 2018	**540,813**	546,905
Inventories:		
Finished goods	**411,643**	338,133
Work in process	**30,708**	27,265
Raw materials and supplies	**121,385**	114,582
Total inventories	**563,736**	479,980
Other current assets	**54,829**	67,856
Total current assets	**1,384,223**	1,456,732
Property, plant and equipment:		
Land and land improvements	**52,466**	52,668
Buildings	**318,664**	314,555
Machinery and equipment	**2,016,275**	1,981,857
Molds, cores and rings	**247,859**	238,911
Total property, plant and equipment	**2,635,264**	2,587,991
Less: Accumulated depreciation	**1,624,549**	1,586,070
Property, plant and equipment, net	**1,010,715**	1,001,921
Operating lease right-of-use assets, net of accumulated amortization of $7,032	**97,646**	—
Goodwill	**18,851**	18,851
Intangibles, net of accumulated amortization of $111,520 at 2019 and $106,871 at 2018	**117,433**	120,321
Deferred income tax assets	**26,923**	28,146
Other assets	**21,377**	8,234

Total assets	**$**	**2,677,168**	$	2,634,205

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(Continued)	**March 31, 2019 (Unaudited)**	December 31, 2018
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	**$20,074**	$15,288
Accounts payable	**268,780**	286,671
Accrued liabilities	**248,029**	282,650
Income taxes payable	**4,993**	975
Current portion of long-term debt and finance leases	**173,974**	174,760
Total current liabilities	**715,850**	760,344
Long-term debt and finance leases	**121,305**	121,284
Noncurrent operating leases	**72,730**	—
Postretirement benefits other than pensions	**235,974**	236,454
Pension benefits	**144,908**	147,950
Other long-term liabilities	**138,183**	135,730
Equity:		
Preferred stock, $1 par value; 5,000,000 shares authorized; none issued		
Common stock, $1 par value; 300,000,000 shares authorized; 87,850,292 shares issued at 2019 and 2018	**87,850**	87,850
Capital in excess of par value	**19,545**	21,124
Retained earnings	**2,451,367**	2,449,714
Accumulated other comprehensive loss	**(448,419)**	(461,589)
Parent stockholders' equity before treasury stock	**2,110,343**	2,097,099
Less: Common shares in treasury at cost (37,699,947 at 2019 and 37,776,659 at 2018)	**(923,703)**	(925,056)
Total parent stockholders' equity	**1,186,640**	1,172,043
Noncontrolling shareholders' interests in consolidated subsidiaries	**61,578**	60,400
Total equity	**1,248,218**	1,232,443
Total liabilities and equity	**$2,677,168**	$2,634,205

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Dollar amounts in thousands except per share amounts)

	Three Months Ended March 31,	
	2019	2018
Operating activities:		
Net income	**$7,178**	$8,983
Adjustments to reconcile net income to net cash from operations:		
Depreciation and amortization	**37,298**	36,424
Stock-based compensation	**869**	1,280
Change in LIFO inventory reserve	**(168)**	(9,900)
Amortization of unrecognized postretirement benefits	**9,131**	9,210
Changes in operating assets and liabilities:		
Accounts and notes receivable	**2,278**	(14,955)
Inventories	**(81,354)**	(81,156)
Other current assets	**(2,170)**	(5,532)
Accounts payable	**2,740**	13,063
Accrued liabilities	**(63,228)**	(34,778)
Other items	**(8,986)**	58
Net cash used in operating activities	**(96,412)**	(77,303)
Investing activities:		
Additions to property, plant and equipment and capitalized software	**(59,867)**	(59,722)
Proceeds from the sale of assets	**38**	133
Net cash used in investing activities	**(59,829)**	(59,589)
Financing activities:		
Net issuances of (payments on) short-term debt	**6,608**	(5,356)
Repayments of long-term debt and finance lease obligations	**(797)**	(809)
Payment of financing fees	**—**	(1,230)
Repurchase of common stock	**—**	(15,565)
Payments of employee taxes withheld from share-based awards	**(1,158)**	(1,891)
Payment of dividends to Cooper Tire & Rubber Company stockholders	**(5,262)**	(5,334)
Excess tax benefits on stock-based compensation	**—**	270
Net cash used in financing activities	**(609)**	(29,915)
Effects of exchange rate changes on cash	**(1,058)**	1,399
Net change in cash, cash equivalents and restricted cash	**(157,908)**	(165,408)
Cash, cash equivalents and restricted cash at beginning of year	**378,246**	392,306
Cash, cash equivalents and restricted cash at end of year	**$220,338**	$226,898
Unrestricted Cash and cash equivalents	**$212,331**	$213,091
Restricted cash included in Other current assets	**6,410**	11,683
Restricted cash included in Other assets	**1,597**	2,124
Total cash, cash equivalents and restricted cash	**$220,338**	$226,898

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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COOPER TIRE & RUBBER COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share amounts)

Note 1. Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the condensed consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation.

There is a year-round demand for passenger car and truck replacement tires, but passenger car 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. Operating results for the three month period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ended December 31, 2019.

The Company consolidates into its financial statements the accounts of the Company, all wholly-owned subsidiaries, and any partially-owned subsidiary that the Company has the ability to control. Control generally equates to ownership percentage, whereby investments that are more than 50 percent owned are consolidated, investments in affiliates of 50 percent or less but greater than 20 percent are accounted for using the equity method, and investments in affiliates of 20 percent or less are accounted for using the cost method. The Company does not consolidate any entity for which it has a variable interest based solely on power to direct the activities and significant participation in the entity's expected results that would not otherwise be consolidated based on control through voting interests. Further, the Company's joint ventures are businesses established and maintained in connection with the Company's operating strategy. All intercompany transactions and balances have been eliminated.

On December 12, 2018, Cooper Tire & Rubber Company Vietnam Holding, LLC ("Cooper Vietnam"), a wholly owned subsidiary of the Company, and Sailun (Vietnam) Co., Ltd. ("Sailun Vietnam") entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell truck and bus radial ("TBR") tires. The Company's investment in the joint venture will represent a 35 percent ownership interest and is accounted for under the equity method. Total investment in the facility and equipment in the joint venture is expected to be in the range of $190 to $210 million USD, funded through capital contributions and debt, with Cooper being responsible for its pro rata share. Construction of the facility is expected to begin in 2019, with tire production commencing in the first half of 2020.

The capacity created by the planned Vietnam joint venture will decrease expected production requirements for Cooper's China-based Qingdao Ge Rui Da Rubber Co., Ltd. ("GRT") joint venture. The Company included the expected impact of the new Vietnam joint venture on projected future cash flows in performing its annual goodwill impairment assessment on GRT in the fourth quarter of 2018. Based on the assessment performed, the goodwill balance was deemed to be fully impaired and resulted in a non-cash fourth quarter 2018 impairment charge of $33,827.

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

(Number of shares and dollar amounts in thousands except per share amounts)	Three Months Ended March 31,	
	2019	2018
Numerator		
Numerator for basic and diluted earnings per share - income from continuing operations available to common stockholders	**$6,979**	$8,285
Denominator		
Denominator for basic earnings per share - weighted average shares outstanding	**50,100**	50,838
Effect of dilutive securities - stock options and other stock units	**278**	341
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	**$50,378**	$51,179
Earnings per share:		
Basic	**$0.14**	$0.16
Diluted	**$0.14**	$0.16

At March 31, 2019 and 2018, all options to purchase shares of the Company’s common stock were included in the computation of diluted earnings per share as the options’ exercise prices were less than the average market price of the common shares.

Warranties – Warranties are provided on the sale of certain of the Company’s products and an accrual for estimated future claims is recorded at the time revenue is recognized. Tire replacement under most of the warranties the Company offers is on a prorated basis. The Company provides for the estimated cost of product warranties based primarily on historical return rates, estimates of the eligible tire population and the value of tires to be replaced. The following table summarizes the activity in the Company’s product warranty liabilities which are recorded in Accrued liabilities and Other long-term liabilities on the Company’s Condensed Consolidated Balance Sheets:

	Three Months Ended March 31,	
	2019	2018
Reserve at beginning of year	**$12,431**	$12,093
Additions	**2,606**	3,844
Payments	**(3,198)**	(2,743)
Reserve at period end	**$11,839**	$13,194

Truck and Bus Tire Tariffs – Antidumping and countervailing duty investigations into certain TBR tires imported from the PRC into the United States ("U.S.") were initiated on January 29, 2016. The preliminary determinations announced in both investigations were affirmative and resulted in the imposition of significant additional duties from each. On February 22, 2017, the U.S. International Trade Commission ("ITC") made a final determination that the U.S. market had not suffered material injury because of imports of TBR tires from China. As a result of this decision, preliminary antidumping and countervailing duties from Chinese TBR tires imported subsequent to the preliminary determination were not collected and any amounts previously paid were refunded by U.S. Customs and Border Protection. On April 14, 2017, the United Steelworkers Union filed a civil action challenging the ITC's decision not to impose duties on TBR tires from China imported into the U.S. and that case is still pending. On November 1, 2018, the Court of International Trade (“CIT”) remanded the case back to the ITC for reconsideration. On January 30, 2019, the ITC reversed its earlier decision and made an affirmative determination of material injury. On February 15, 2019, the determination was published in the Federal Register and countervailing duties of 42.16 percent were imposed on the Company's TBR tire imports into the U.S. from China. The ITC’s re-determination, along with comments from the parties regarding the re-determination, are due to be filed with the CIT by May 31, 2019. The CIT will then make a final determination. Since the publication of the determination in the Federal Register, the Company incurred duties of $10,048 for the quarter ended March 31, 2019. This amount was recorded as a component of Cost of products sold in the Condensed Consolidated Statements of Income.

North American Distribution Center – On January 22, 2017, a tornado hit the Company’s leased Albany, Georgia distribution center, causing damage to the Company's assets and disrupting certain operations. Insurance, less applicable deductibles, covered the repair or replacement of the Company's assets that suffered loss or damage, and the Company worked closely with its insurance carriers and claims adjusters to ascertain the full amount of insurance proceeds due to the Company as a result of the damages and the loss the Company suffered. The Company's insurance policies also provided coverage for interruption to its business, including lost profits, and reimbursement for other expenses and costs that were incurred relating to the damages and losses suffered. For the year ended December 31, 2017, the Company incurred direct expenses of $12,583, less proceeds of $7,000 recovered from insurance. For the year ended December 31, 2018, the Company recorded insurance recoveries of $7,300, less direct costs of $1,569. In the first quarter of 2018, the Company recorded insurance recoveries of $3,809, while incurring direct costs of $870. These amounts were recorded as a component of Cost of products sold in the Condensed Consolidated Statements of Income for the respective periods. The Company's insurance claim related to the tornado was closed in the year ended December 31, 2018, with no further direct expenses or insurance recoveries anticipated.

Recent Accounting Pronouncements

Each change to U.S. GAAP is established by the Financial Accounting Standards Board (“FASB”) in the form of an accounting standards update (“ASU”) to the FASB’s Accounting Standards Codification (“ASC”).

The Company considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company’s condensed consolidated financial statements.

Accounting Pronouncements – Recently adopted

SEC Disclosure Regulation Simplifications

During the fourth quarter of 2018, the SEC published Final Rule Release No. 33-10532, "Disclosure Update and Simplification." This standard, effective for quarterly and annual reports submitted after November 5, 2018, streamlines disclosure requirements by removing certain redundant topics. For the Company, the most notable simplification implemented in 2019 is the expansion of the shareholders' equity reconciliation to display quarter-to-quarter details.

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases,” which requires balance sheet recognition of lease liabilities and right-of-use assets for most leases having terms of twelve months or longer. The Company adopted the standard on the required effective date of January 1, 2019 using the transition option, “Comparatives Under 840 Option,” established by ASU 2018-11, Leases (Topic 842), Targeted Improvements (ASU 2018-11). The FASB issued multiple amendments to the standard which provided clarification, additional guidance, practical expedients and other improvements to ASU 2016-02. The new guidance requires recognition of lease assets and liabilities for operating leases with terms of more than 12 months, in addition to those currently recorded, on the Company's Condensed Consolidated Balance Sheets. See Note 9 for additional details.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, “Targeted Improvements to Accounting for Hedging Activities,” which expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The Company adopted this standard effective January 1, 2019. The adoption of this standard did not materially impact the Company's condensed consolidated financial statements.

Additionally, in October 2018, the FASB issued ASU 2018-16, "Derivatives and Hedging (Topic 815)." The Federal Reserve and Alternative Reference Rates Committee expressed the importance of including the Overnight Index Swap (OIS) rate based on Secured Overnight Financing Rate (SOFR) as a benchmark rate for hedge accounting purposes in facilitating broader use of the underlying SOFR rate in the marketplace to facilitate the move away from LIBOR. This update, effective on January 1, 2019, provides the option to use the OIS rate based on SOFR as a benchmark for hedge accounting. The Company does not currently hold any SOFR-based instruments, but will continue to evaluate its use as the markets transition away from LIBOR.

Accounting Pronouncements – To be adopted

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820)," which removes, modifies and adds various disclosure requirements around the topic in order to clarify and improve the cost-benefit nature of disclosures. For example, disclosures around transfers between fair value hierarchy levels will be removed and further detail around changes in unrealized gains and losses for the period and unobservable inputs determining level 3 fair value measurements will be added. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

Defined Benefit Plans
In August 2018, the FASB issued ASU 2018-14, "Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20)," which removes, modifies and adds various disclosure requirements around the topic in order to clarify and improve the cost-benefit nature of disclosures. For example, disclosures around the effect of a one-percentage-point change in assumed health care costs will be removed and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period will be added. This standard is effective for fiscal years ending after December 15, 2020, and early adoption is permitted. These amendments must be applied on a retrospective basis for all periods presented. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

Internal-Use Software
In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)," which aligns the requirements for capitalizing implementation costs incurred in a service contract hosting arrangement with those of developing or obtaining internal-use software. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.
Related Parties
In October 2018, the FASB issued ASU 2018-17 "Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for VIEs." When determining if fees paid to decision makers and service providers are variable interests, entities must now also consider indirect interests of those decision makers and service providers held through related parties under common control. This standard is effective January 1, 2020, with early adoption permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.
Note 2. Restructuring
During the first quarter of 2019, the Company recorded restructuring expense associated with the planned cessation of light vehicle tire production at its Melksham, England facility, which is included in the International Segment. This initiative, which was committed to on January 17, 2019 by Cooper Tire Europe, a wholly owned subsidiary of the Company, is expected to result in charges to 2019 pre-tax earnings of approximately $8 to $11 million, of which 5 to 10 percent are expected to be non-cash charges. An estimated 300 roles will be eliminated at the site. Cooper Tire Europe will obtain light vehicle tires to meet customer needs from other production sites within the Company’s global production network. Approximately 400 roles will remain in Melksham to support the functions that continue there, including motorsports and motorcycle tire production, the materials business, Cooper Tire Europe headquarters, sales and marketing, and the Europe Technical Center.
The Company recorded restructuring expense of $4,973 for the quarter ended March 31, 2019, including $4,163 of employee severance costs and $810 of asset write-downs and other costs. At March 31, 2019, the Company's accrued restructuring balance is $4,163, related entirely to employee severance costs.
Note 3. Revenue from Contracts with Customers
Accounting policy
On January 1, 2018, the Company adopted the new U.S. GAAP revenue standard using the modified retrospective transition method applied to contracts which were not completed as of January 1, 2018. The new revenue standard requires revenue to be recognized when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services.
In accordance with the new revenue standard, revenue is measured based on the consideration specified in a contract with a customer, and excludes any sales incentives or rebates. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. This occurs with shipment or delivery, depending on the terms of the underlying contract. The transaction price will include estimates of variable consideration to the extent it is probable that a significant reversal of revenue recognized will not occur. At the time of sale, the Company estimates provisions for different forms of variable consideration (discounts and rebates) based on historical experience, current conditions and contractual obligations, as applicable. Payment terms with customers

vary by region and customer, but are generally 30-90 days. The Company does not have significant financing components or significant payment terms. Incidental items that are immaterial in the context of the contract are expensed as incurred.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Shipping and handling costs associated with outbound freight after control of a product has transferred to a customer are accounted for as a fulfillment cost and not as a separate performance obligation. Therefore, such items are accrued upon recognition of revenue.

Nature of goods and services

The following is a description of principal activities, separated by reportable segments, from which the Company generates its revenue. See Note 14 - Business Segments for additional details on the Company's reportable segments. The Company’s reportable segments have the following revenue characteristics:

- Americas Tire Operations - The Americas Tire Operations segment manufactures and markets passenger car and light truck tires. The segment also markets and distributes wheels and racing, motorcycle and TBR tires.
- International Tire Operations - The International Tire Operations segment manufactures and markets passenger car, light truck, motorcycle, racing, and TBR tires and tire retread material for global markets.

Disaggregation of revenue

In the following tables, revenue is disaggregated by major market channel for the three months ended March 31, 2019 and 2018, respectively:

	Three Months Ended March 31, 2019			
	Americas	International	Eliminations	Total
Light vehicle[1]	**$454,014**	**$105,320**	**$(19,322)**	**$540,012**
Truck and bus radial	**50,086**	**23,696**	**(20,236)**	**53,546**
Other[2]	**10,836**	**14,769**	**—**	**25,605**
Net sales	**$514,936**	**$143,785**	**$(39,558)**	**$619,163**

	Three Months Ended March 31, 2018			
	Americas	International	Eliminations	Total
Light vehicle[1]	$433,384	$121,341	$(24,950)	$529,775
Truck and bus radial	41,461	26,589	(20,190)	47,860
Other[2]	10,547	13,314	—	23,861
Net sales	$485,392	$161,244	$(45,140)	$601,496

(1) Light vehicle includes passenger car and light truck tires

(2) Other includes motorcycle and racing tires, wheels, tire retread material, and other items

Contract balances

Contract liabilities relate to customer payments received in advance of shipment. As the Company does not generally have rights to consideration for work completed but not billed at the reporting date, the Company does not have any contract assets. Accounts receivable are not considered contract assets under the new revenue standard as contract assets are conditioned upon the Company's future satisfaction of a performance obligation. Accounts receivable, in contrast, are unconditional rights to consideration.

Significant changes in the contract liabilities balance during the three months ended March 31, 2019 are as follows:

	Contract Liabilities
Contract liabilities at beginning of year	$947
Increases to deferred revenue for cash received in advance from customers	2,929
Decreases due to recognition of deferred revenue	(2,579)
Contract liabilities at March 31, 2019	$1,297

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Transaction price allocated to remaining performance obligations

For the three months ended March 31, 2019 and 2018, respectively, revenue recognized from performance obligations related to prior periods was not material.

Revenue expected to be recognized in any future year related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less, contracts where revenue is recognized as invoiced and contracts with variable consideration related to undelivered performance obligations, is not material.

The Company applies the practical expedient in ASC 606 "Revenue from Contracts with Customers" and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Note 4. Inventories

Inventory costs are determined using the last-in, first-out ("LIFO") method for substantially all U.S. inventories. The current cost of the U.S. inventories under the FIFO method was $452,832 and $380,990 at March 31, 2019 and December 31, 2018, respectively. These FIFO values have been reduced by approximately $84,900 and $85,068 at March 31, 2019 and December 31, 2018, respectively, to arrive at the LIFO value reported on the Condensed Consolidated Balance Sheets. The remaining inventories have been valued under the FIFO method. All LIFO inventories are valued at the lower of cost or market. All other inventories are stated at the lower of cost or net realizable value.

Note 5. Income Taxes

For the three month period ended March 31, 2019, the Company recorded a provision for income taxes of $6,337 (effective tax rate of 46.9 percent) compared to $3,451 (effective tax rate of 27.8 percent) for the same period in 2018. The 2019 three month period provision for income taxes is calculated using a forecasted multi-jurisdictional annual effective tax rate to determine a blended annual effective tax rate. The effective tax rate for the three month period ended March 31, 2019 differs from the U.S. federal statutory rate of 21 percent primarily due to net discrete tax expense of $2,417 recorded during the quarter, the projected mix of earnings in international jurisdictions with differing tax rates, and jurisdictions where valuation allowances are recorded. The discrete tax items primarily consist of additional 2017 transition tax and unrecognized tax benefits accrued of $1,655 and $670, respectively, as a result of final U.S. federal tax guidance issued during the quarter pertaining to the one-time mandatory deemed repatriation under the 2017 Tax Act.

The Company continues to maintain valuation allowances pursuant to ASC 740, “Accounting for Income Taxes,” against portions of its U.S. and non-U.S. deferred tax assets at March 31, 2019 as it cannot assure the future realization of the associated tax benefits prior to their reversal or expiration. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a loss carryforward by a valuation allowance of $1,402. In addition, the Company has recorded valuation allowances of $23,735 relating to non-U.S. net operating losses and other deferred tax assets for a total valuation allowance of $25,137. 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 the associated deferred tax assets are deemed to be realizable.

The Company maintains an ASC 740-10, “Accounting for Uncertainty in Income Taxes,” liability for unrecognized tax benefits related to permanent differences. At March 31, 2019, the Company’s liability, exclusive of penalty and interest, totals approximately $7,103. The Company accrued an additional net $870 for unrecognized tax benefits and an immaterial amount of interest expense during the three month period ended March 31, 2019. Based upon the outcome of tax examinations, judicial proceedings, or expiration of statutes of limitations, it is possible that the ultimate resolution of the Company's unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities.

The Company operates in multiple jurisdictions throughout the world. The Company has effectively settled U.S. federal tax examinations for tax years before 2015 and state and local examinations for tax years before 2013, with limited exceptions. Furthermore, the Company’s non-U.S. subsidiaries are generally no longer subject to income tax examinations in major foreign taxing jurisdictions for tax years prior to 2015. Certain of the Company's state income tax returns in various jurisdictions are currently under examination and it is possible that these examinations will conclude within the next twelve months. However, it is not possible to estimate net increases or decreases in the Company’s unrecognized tax benefits during the next twelve months.

Note 6. Debt

On February 15, 2018, the Company amended its revolving credit facility with a consortium of banks that provides up to $400,000 based on available collateral, including a $110,000 letter of credit subfacility, and expires in February 2023. The Company may elect to increase the commitments under the revolving credit facility or incur one or more tranches of term loans in an aggregate amount of up to $100,000, subject to the satisfaction of certain conditions. The Company may elect to add certain foreign subsidiaries as additional borrowers under the Credit Agreement (the "Foreign Subsidiary Borrowers"), subject to the satisfaction of certain conditions.

On February 15, 2018, the Company amended its accounts receivable securitization facility that provides up to $150,000 based on available collateral and expires in February 2021. Pursuant to the terms of the facility, the Company is permitted to sell certain of its domestic trade receivables on a continuous basis to its wholly-owned, bankruptcy-remote subsidiary, Cooper Receivables LLC ("CRLLC"). In turn, CRLLC may sell from time to time an undivided ownership interest in the purchased trade receivables, without recourse, to a PNC Bank administered, asset-backed commercial paper conduit. The accounts receivable securitization facility has no significant financial covenants until available credit is less than specified amounts.

The Company had no borrowings under the revolving credit facility or the accounts receivable securitization facility at March 31, 2019 or December 31, 2018. Amounts used to secure letters of credit totaled $16,800 and $16,800 at March 31, 2019 and December 31, 2018, respectively. The Company's additional borrowing capacity, net of borrowings and 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 March 31, 2019, was $509,700.

The Company's consolidated operations in Asia have renewable unsecured credit lines that provide up to $65,900 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 $45,800 at March 31, 2019.

The following table summarizes the long-term debt and finance leases of the Company at March 31, 2019 and December 31, 2018. Except for the finance leases and other, the remaining long-term debt is due in an aggregate principal payment on the due date:

	March 31, 2019	December 31, 2018
Parent company		
8% unsecured notes due December 2019	**$173,578**	$173,578
7.625% unsecured notes due March 2027	**116,880**	116,880
Finance leases and other	**5,459**	6,245
	295,917	296,703
Less: unamortized debt issuance costs	**638**	659
	295,279	296,044
Less: current maturities	**173,974**	174,760
	$121,305	$121,284

In addition, at March 31, 2019 and December 31, 2018, the Company had short-term notes payable of $20,074 and $15,288, respectively, due within twelve months, consisting of funds borrowed by the Company's operations in the PRC. The weighted average interest rate of the short-term notes payable at March 31, 2019 and December 31, 2018 was 4.81 percent and 4.82 percent, respectively.

Note 7. Fair Value Measurements

Derivative financial instruments are utilized by the Company to reduce foreign currency exchange risks. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes. The derivative financial instruments include non-designated and cash flow hedges of foreign currency exposures. The change in values of the non-designated foreign currency hedges offset the exchange rate fluctuations related to assets and liabilities recorded on the condensed consolidated balance sheets. The cash flow hedges offset exchange rate fluctuations on the foreign currency-denominated intercompany loans and forecasted cash flows. The Company presently hedges exposures in various currencies generally for transactions expected to occur within the next 12 months. Additionally, the Company utilizes cash flow hedges that hedge already recognized intercompany loans with maturities of up to three years. The notional amount of these foreign currency derivative instruments at March 31, 2019 and December 31, 2018 was $157,076 and $129,542, respectively. The counterparties to each of these agreements are major commercial banks.

The Company uses non-designated foreign currency forward contracts to hedge its net foreign currency monetary assets and liabilities primarily resulting from non-functional currency denominated receivables and payables of certain U.S. and foreign entities.

Foreign currency forward contracts are also used to hedge variable cash flows associated with forecasted sales and purchases denominated in currencies that are not the functional currency of certain entities. The forward contracts have maturities of less than twelve months pursuant to the Company's policies and hedging practices. These forward contracts meet the criteria for and have been designated as cash flow hedges. Accordingly, the effective portion of the change in fair value of such forward contracts ($(931) and $713 as of March 31, 2019 and December 31, 2018, respectively) are recorded as a separate component of stockholders' equity in the accompanying Condensed Consolidated Balance Sheets and reclassified into earnings as the hedged transactions occur.

The Company utilizes cross-currency interest rate swaps to hedge the principal and interest repayment of some intercompany loans. These contracts have maturities of up to three years and meet the criteria for and have been designated as cash flow hedges. Spot to spot changes are recorded in income and all other effective changes are recorded as a separate component of stockholders' equity.

The Company assesses hedge effectiveness prospectively and retrospectively, based on regression of the change in foreign currency exchange rates. Time value of money is included in effectiveness testing.

The derivative instruments are subject to master netting arrangements with the counterparties to the contracts. The following table presents the location and amounts of derivative instrument fair values in the Condensed Consolidated Balance Sheets:

Assets/(liabilities)	**March 31, 2019**	December 31, 2018
Designated as hedging instruments:		
Gross amounts recognized	**$ (1,906)**	$ (1,524)
Gross amounts offset	**975**	2,237
Net amounts	**(931)**	713
Not designated as hedging instruments:		
Gross amounts recognized	**(267)**	(544)
Gross amounts offset	**189**	201
Net amounts	**(78)**	(343)
Net amounts presented:		
Other current assets	**$ 683**	$ 1,750
Other long-term liabilities	**$ (1,692)**	$ (1,380)

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

Derivatives Designated as Cash Flow Hedges	Three Months Ended March 31, **2019**	2018
Amount of (Loss)/Gain Recognized in Other Comprehensive Income on Derivatives	**$(1,183)**	$646
Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into Income	**$(62)**	$(1,493)

Derivatives not Designated as Hedging Instruments	Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives for the Three Months Ended March 31, **2019**	2018
Foreign exchange contracts	Other non-operating expense	**$ (1,006)**	$ (2,281)

For foreign exchange hedges of forecasted sales and purchases designated as effective, the Company reclassifies the gain (loss) from Other comprehensive (loss) income into Net sales.

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into the three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within the different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Condensed Consolidated Balance Sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1. Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access.

Level 2. Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following.

a. Quoted prices for similar assets or liabilities in active markets;
b. Quoted prices for identical or similar assets or liabilities in non-active markets;
c. Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
d. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The valuation of foreign currency derivative instruments was determined using widely accepted valuation techniques. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs, including forward points. The Company incorporated credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Although the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as current credit ratings, to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2019 and December 31, 2018, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety were to be classified in Level 2 of the fair value hierarchy.

The valuation of stock-based liabilities was determined using the Company's stock price, and as a result, these liabilities are classified in Level 1 of the fair value hierarchy.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018:

	March 31, 2019			
	Total Assets (Liabilities)	**Quoted Prices in Active Markets for Identical Assets Level (1)**	**Significant Other Observable Inputs Level (2)**	**Significant Unobservable Inputs Level (3)**
Foreign Currency Derivative	**$1,009**	**$ —**	**$ 1,009**	**$ —**
Stock-based Liabilities	**(13,877)**	**(13,877)**	**—**	**—**

	December 31, 2018			
	Total Assets (Liabilities)	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Foreign Currency Derivative	$370	$ —	$ 370	$ —
Stock-based Liabilities	(14,644)	(14,644)	—	—

The fair market value of Cash and cash equivalents, Notes receivable, Restricted cash included in Other current assets, Restricted cash included in Other assets, Notes payable and Current portion of long-term debt and finance leases at March 31, 2019 and December 31, 2018 are equal to their corresponding carrying values as reported on the Condensed Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018, respectively. Each of these classes of assets and liabilities is classified within Level 1 of the fair value hierarchy.

The fair market value of Long-term debt and finance leases is $133,343 and $137,343 at March 31, 2019 and December 31, 2018, respectively, and is classified within Level 1 of the fair value hierarchy. The carrying value of Long-term debt is

$121,305 and $121,284 as reported on the Condensed Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018, respectively.

Note 8. Pensions and Postretirement Benefits Other than Pensions

The following tables disclose the amount of net periodic benefit costs for the three months ended March 31, 2019 and 2018, respectively, for the Company's defined benefit plans and other postretirement benefits:

	Pension Benefits - Domestic Three Months Ended March 31,	
	2019	2018
Components of net periodic benefit cost:		
Service cost	**$2,244**	$2,580
Interest cost	**9,875**	9,210
Expected return on plan assets	**(11,990)**	(13,498)
Amortization of actuarial loss	**8,284**	8,235
Net periodic benefit cost	**$8,413**	$6,527

	Pension Benefits - International Three Months Ended March 31,	
	2019	2018
Components of net periodic benefit cost:		
Service cost	**$—**	$—
Interest cost	**2,821**	2,906
Expected return on plan assets	**(2,947)**	(3,155)
Amortization of actuarial loss	**949**	1,110
Net periodic benefit cost	**$823**	$861

	Other Post Retirement Benefits Three Months Ended March 31,	
	2019	2018
Components of net periodic benefit cost:		
Service cost	**$393**	$487
Interest cost	**2,472**	2,313
Amortization of prior service cost	**(102)**	(135)
Net periodic benefit cost	**$2,763**	$2,665

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Note 9. Lease Commitments

We lease certain warehouses, distribution centers, office space, material handling equipment, office equipment, cars and information technology hardware. The Company determines if an arrangement is a lease or contains an embedded lease at contract inception.

Lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in lease contracts is typically not readily determinable. As such, the Company utilizes the appropriate incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 10 years or more. The exercise of lease renewal options is at our sole discretion. For purposes of calculating operating lease liabilities, lease terms may be deemed to include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Certain of our lease agreements include rental payments based on the use of the leased property over contractual levels. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company has lease agreements with lease and non-lease components, which are accounted for separately. Although separation of lease and non-lease components is required, certain practical expedients are available to entities. Entities electing the practical expedient would account for each lease component and the related non-lease component together as a single component. For certain building leases, including the lease of distribution center and office buildings, the Company accounts for the lease and non-lease components as a single lease component. For all other asset types, the Company accounts for lease and non-lease components separately.

For operating leases, the right-of-use asset is subsequently measured throughout the lease term at the carrying amount of the lease liability. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For finance leases, the right-of-use asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term. In those cases, the right-of-use asset is amortized over the useful life of the underlying asset. Amortization of the right-of-use asset is recognized and presented separately from interest expense on the lease liability.

Right-of-use assets for operating and finance leases are periodically reviewed for impairment losses. The Company uses the long-lived assets impairment guidance in ASC Subtopic 360-10, "Property, Plant,and Equipment - Overall", to determine whether a right-of-use asset is impaired, and if so, the amount of the impairment loss to recognize. No impairments losses have been recognized to date.

The following table presents the location and amount of lease assets and liabilities in the Condensed Consolidated Balance Sheet:

Assets	Location	March 31, 2019
Operating lease assets	Operating lease right-of-use assets	$97,646
Finance lease assets	Property, plant and equipment	3,272
Total leased assets		$100,918
Liabilities	Location	
Current:		
Operating	Accrued liabilities	$28,142
Finance	Current portion of long-term debt and finance leases	396
Noncurrent:		
Operating	Noncurrent operating leases	72,730
Finance	Long-term debt and finance leases	5,063
Total lease liabilities		$106,331

The following table presents the location and amount of lease expense in the Condensed Consolidated Income Statement:

Lease cost	Location	Three Months Ended March 31, 2019
Operating lease cost [(a)]	Cost of Sales	$9,235
Operating lease cost	Selling General & Administrative Expenses	1,382
Total operating lease cost		10,617
Amortization of finance lease assets	Cost of sales	$55
Interest on finance lease liabilities	Interest expense	2
Total finance lease cost		57
Net lease cost		$10,674

[(a)] - Includes short-term lease costs of $1,886 and variable lease costs of $836.

The following table presents the future maturities of the Company's lease obligations:

	March 31, 2019		
	Operating Leases	Finance Leases	Total
2019	$24,395	$396	$24,791
2020	30,426	—	30,426
2021	17,422	5,063	22,485
2022	13,232	—	13,232
2023	9,153	—	9,153
After 2024	24,006	—	24,006
Total lease payments	118,634	5,459	124,093
Less: Interest	17,762	—	17,762
Present value of lease liabilities	$100,872	$5,459	$106,331

The following table presents the weighted-average lease term and discount rates of the Company's lease obligations:

Weighted-average remaining lease term (years)	March 31, 2019
Operating leases	**5.18**
Finance leases	**0.42**
Weighted-average discount rate	
Operating leases	**5.13 %**
Finance leases	**1.31 %**

The following table presents the cash flow amounts related to lease liabilities included in the Company's Condensed Consolidated Statement of Cash Flows

	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	**$(8,082)**
Operating cash flows from finance leases	**55**
Financing cash flows from finance leases	**(197)**
Leased assets obtained in exchange for new finance lease liabilities	**—**
Leased assets obtained in exchange for new operating lease liabilities	**36**

Note 10. Stockholders' Equity

The following tables provide a quarterly reconciliation of the equity accounts attributable to Cooper Tire & Rubber Company and to the noncontrolling shareholders' interests for the year to date as of March 31, 2019 and 2018:

	Total Equity		
	Total Parent Stockholders' Equity	Noncontrolling Shareholders' Interests in Consolidated Subsidiary	Total Stockholders' Equity
Balance at December 31, 2018	**$1,172,043**	**$ 60,400**	**$1,232,443**
Net income	**6,979**	**199**	**7,178**
Other comprehensive income	**13,170**	**979**	**14,149**
Stock compensation plans	**(290)**	**—**	**(290)**
Cash dividends - 0.105 per share	**(5,262)**	**—**	**(5,262)**
Balance at March 31, 2019	**$1,186,640**	**$ 61,578**	**$1,248,218**

	Total Equity		
	Total Parent Stockholders' Equity	Noncontrolling Shareholders' Interests in Consolidated Subsidiary	Total Stockholders' Equity
Balance at December 31, 2017	$1,127,096	$ 58,660	$1,185,756
Net income	8,285	698	8,983
Other comprehensive income	26,576	3,945	30,521
Share repurchase program	(15,565)	—	(15,565)
Stock compensation plans	(335)	—	(335)
Cash dividends - 0.105 per share	(5,334)	—	(5,334)
Balance at March 31, 2018	$1,140,723	$ 63,303	$1,204,026

Note 11. Changes in Accumulated Other Comprehensive Income (Loss) by Component

The balances of each component of accumulated other comprehensive income (loss) in the accompanying Consolidated Statements of Equity were as follows:

	Cumulative Translation Adjustment	Derivative Instruments	Post-retirement Benefits	Total
Ending Balance, December 31, 2018	**$(62,133)**	**$ 2,150**	**$(401,606)**	**$(461,589)**
Other comprehensive income (loss) before reclassifications	**8,328**	**(1,183)**	**—**	**7,145**
Foreign currency translation effect	**—**	**—**	**(1,460)**	**(1,460)**
Income tax effect	**—**	**245**	**—**	**245**
Amount reclassified from accumulated other comprehensive income (loss)				
Cash flow hedges	**—**	**62**	**—**	**62**
Amortization of prior service credit	**—**	**—**	**(102)**	**(102)**
Amortization of actuarial losses	**—**	**—**	**9,233**	**9,233**
Income tax effect	**—**	**88**	**(2,041)**	**(1,953)**
Other comprehensive income (loss)	**8,328**	**(788)**	**5,630**	**13,170**
Ending Balance, March 31, 2019	**$(53,805)**	**$ 1,362**	**$(395,976)**	**$(448,419)**

	Cumulative Translation Adjustment	Derivative Instruments	Post- retirement Benefits	Total
Ending Balance, December 31, 2017	$(39,940)	$ 349	$(438,887)	$(478,478)
Other comprehensive income before reclassifications	20,925	646	—	21,571
Foreign currency translation effect	—	—	(2,900)	(2,900)
Income tax effect	—	(416)	—	(416)
Amount reclassified from accumulated other comprehensive income (loss)				
Cash flow hedges	—	1,493	—	1,493
Amortization of prior service credit	—	—	(135)	(135)
Amortization of actuarial losses	—	—	9,345	9,345
Income tax effect	—	(172)	(2,210)	(2,382)
Other comprehensive income	20,925	1,551	4,100	26,576
Ending Balance, March 31, 2018	$(19,015)	$ 1,900	$(434,787)	$(451,902)

Note 12. Comprehensive Income (Loss) Attributable to Noncontrolling Shareholders' Interests

The following table provides the details of the comprehensive income (loss) attributable to noncontrolling shareholders' interests:

	Three Months Ended March 31,	
	2019	2018
Net income attributable to noncontrolling shareholders' interests	**$199**	$698
Other comprehensive income (loss):		
Currency translation adjustments	**979**	3,945
Comprehensive income (loss) attributable to noncontrolling shareholders' interests	**$1,178**	$4,643

Note 13. Contingent Liabilities

Product Liability Claims

The Company is a defendant in various product 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 product liability claims faced by the Company generally involves different types of tires and 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 product 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 product liability lawsuits is not surprising given the current litigation climate, which is largely confined to the United States. However, the fact that the Company is subject to claims does not indicate that there is a quality issue with the Company’s tires. The Company sells approximately 30 to 35 million passenger car, light truck, SUV, TBR 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, improper repairs, road hazard and excessive speed.

The Company accrues costs for product 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 product 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 product 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. Adjustments to estimated reserves are recorded in the period in which the change in estimate occurs. The liability often cannot be determined with precision until the claim is resolved.

Pursuant to ASU 450 "Contingencies," the Company accrues the minimum liability for each known claim when the estimated outcome is a range of probable loss and no one amount within that range is more likely than another. The Company uses a range of losses because an average cost would not be meaningful since the product liability claims faced by the Company are unique and widely variable, and accordingly, the resolutions of those claims have an enormous amount of variability. The costs have ranged from zero dollars to $33 million in one case with no “average” that is meaningful. No specific accrual is made for individual unasserted claims or for premature claims, asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known. However, an accrual for such claims based, in part, on management’s expectations for future litigation activity and the settled claims history is maintained. The Company periodically reviews such estimates and any adjustments for changes in reserves are recorded in the period in which the change in estimate occurs. 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. While the Company believes its reserves are reasonably stated, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

The time frame for the payment of a product 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 or appeals process - and is highly dependent on jurisdiction, specific facts, the plaintiff’s attorney, the court’s docket and other factors. Given that some claims may be resolved in weeks and others may take five years or more, it is impossible to predict with any reasonable reliability the time frame over which the accrued amounts may be paid.

The Company regularly reviews the probable outcome of outstanding legal proceedings and the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated. As part of its regular review, the Company monitors trends that may affect its ultimate liability and analyzes the developments and variables likely to affect pending and anticipated claims against the Company and the reserves for such claims. The Company utilizes claims experience, as well as trends and developments in the litigation climate, in estimating its required accrual. Based on the Company's first quarter review, coupled with normal activity, including the addition of another quarter of self-insured incidents, settlements and changes in the amount of reserves, the Company increased its accrual to $114,543 at March 31, 2019 from $112,124 at December 31, 2018. The addition of another quarter of self-insured incidents accounted for an increase of $9,286 in the Company's product liability reserve in the first quarter of 2019. Settlements, changes in the amount of reserves for cases where sufficient information is known to estimate a liability, and changes in assumptions decreased the liability by $1,492. The Company paid $5,375 during the first quarter of 2019 to resolve cases and claims.

The Company’s product liability reserve balance at March 31, 2019 totaled $114,543 (the current portion of $30,718 is included in Accrued liabilities and the long-term portion is included in Other long-term liabilities on the Condensed Consolidated Balance Sheets), and the balance at December 31, 2018 totaled $112,124 (current portion of $30,550).

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

For the three months ended March 31, 2019 and 2018, product liability expense totaled $10,817 and $15,068, respectively. Product liability expenses are included in Cost of products sold in the Condensed Consolidated Statements of Income.

Note 14. Business Segments

The Company has four segments under ASC 280, "Segments":

- North America, composed of the Company’s operations in the United States and Canada;
- Latin America, composed of the Company’s operations in Mexico, Central America and South America;
- Europe; and
- Asia.

North America and Latin America meet the criteria for aggregation in accordance with ASC 280, as they are similar in their production and distribution processes and exhibit similar economic characteristics. The aggregated North America and Latin America segments are presented as “Americas Tire Operations” in the segment disclosure. The Americas Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. The segment also has a joint venture manufacturing operation in Mexico, Corporacion de Occidente SA de CV ("COOCSA"), which supplies passenger car tires to the North American, Mexican, Central American and South American markets. The segment also markets and distributes racing, TBR and motorcycle tires. The racing and motorcycle tires are manufactured by the Company’s European Operations segment and by others. TBR tires are sourced from GRT and through an off-take agreement that was entered with PCT, the Company's former joint venture. In December 2017, the Company signed an off-take agreement with Sailun Vietnam, effective from January 1, 2018 through December 31, 2020, as an additional source of TBR tires. On December 12, 2018, Cooper Vietnam, a wholly owned subsidiary of Cooper, and Sailun Vietnam entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell TBR tires. The new joint venture is expected to begin producing tires in 2020. Major distribution channels and customers include independent tire dealers, wholesale distributors, regional and national retail tire chains, large retail chains that sell tires as well as other automotive products, mass merchandisers and digital channels. 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 OEMs.

Both the Europe and Asia segments have been determined to be individually immaterial, as they do not meet the quantitative requirements for segment disclosure under ASC 280. In accordance with ASC 280, information about operating segments that are not reportable shall be combined and disclosed in an all other category separate from other reconciling items. As a result, these two segments have been combined in the segment operating results discussion. The results of the combined Europe and Asia segments are presented as “International Tire Operations.” The European operations include manufacturing operations in the U.K. and Serbia. The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for domestic and global markets. The Serbian entity manufactures passenger car and light truck tires primarily for the European markets and for export to the North American segment. The Asian operations are located in the PRC. Cooper Kunshan Tire manufactures passenger car and light truck tires both for the Chinese domestic market and for export to markets outside of the PRC. GRT, a joint venture manufacturing facility located in the PRC, serves as a global source of TBR tire production for the Company. The segment also had another joint venture in the PRC, PCT, which manufactured and marketed truck and bus radial and bias tires, as well as passenger car and light truck tires for domestic and global markets. The Company sold its ownership interest in this joint venture in November 2014, and the Company began procuring certain TBR and passenger car tires under off-take agreements with PCT through mid-2018, which were subsequently extended and now expire in mid-2020. In December 2017, the Company signed an off-take agreement with Sailun

Vietnam, as an additional source of TBR tires. On December 12, 2018, Cooper Vietnam, a wholly owned subsidiary of Cooper, and Sailun Vietnam entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell TBR tires in addition to the off-take agreement. The new joint venture is expected to begin producing tires in 2020. The segment sells a majority of its tires in the replacement market, with a portion also sold to OEMs.

On January 17, 2019, Cooper Tire Europe, a wholly owned subsidiary of the Company, committed to a plan to cease light vehicle tire production at its Melksham, England facility. Light vehicle tire production is expected to be phased out over a period of approximately 10 months. An estimated 300 roles will be eliminated at the site. Cooper Tire Europe will obtain light vehicle tires to meet customer needs from other production sites within the Company's global production network. Approximately 400 roles will remain in Melksham to support the functions that continue there, including motorsports and motorcycle tire production, the materials business, Cooper Tire Europe headquarters, sales and marketing, and the Europe Technical Center.

The following table details segment financial information:

	Three Months Ended March 31,	
	2019	2018
Net sales:		
Americas Tire		
External customers	**$504,758**	$478,827
Intercompany	**10,178**	6,565
	514,936	485,392
International Tire		
External customers	**114,406**	122,669
Intercompany	**29,379**	38,575
	143,785	161,244
Eliminations	**(39,558)**	(45,140)
Consolidated net sales	**619,163**	601,496
Operating profit (loss):		
Americas Tire	**38,789**	31,236
International Tire	**(1,339)**	7,434
Unallocated corporate charges	**(10,453)**	(11,966)
Eliminations	**(566)**	(250)
Consolidated operating profit	**26,431**	26,454
Interest expense	**(8,314)**	(7,691)
Interest income	**3,380**	2,315
Other pension and postretirement benefit expense	**(9,362)**	(6,986)
Other non-operating income (expense)	**1,380**	(1,658)
Income before income taxes	**$13,515**	$12,434

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

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

Consolidated Results of Operations

(Dollar amounts in thousands except per share amounts)

	Three Months Ended March 31,		
	2019	Change	2018
Net Sales			
Americas Tire	**$514,936**	6.1 %	$485,392
International Tire	**143,785**	(10.8)%	161,244
Eliminations	**(39,558)**	12.4 %	(45,140)
Net sales	**619,163**	2.9 %	601,496
Operating profit (loss):			
Americas Tire	**38,789**	24.2 %	31,236
International Tire	**(1,339)**	n/m	7,434
Unallocated corporate charges	**(10,453)**	(12.6)%	(11,966)
Eliminations	**(566)**	126.4 %	(250)
Operating profit	**26,431**	(0.1)%	26,454
Interest expense	**(8,314)**	8.1 %	(7,691)
Interest income	**3,380**	46.0 %	2,315
Other pension and postretirement benefit expense	**(9,362)**	34.0 %	(6,986)
Other non-operating income (expense)	**1,380**	n/m	(1,658)
Income before income taxes	**13,515**	8.7 %	12,434
Provision for income taxes	**6,337**	83.6 %	3,451
Net income	**7,178**	(20.1)%	8,983
Net income attributable to noncontrolling shareholders' interests	**199**	(71.5)%	698
Net income attributable to Cooper Tire & Rubber Company	**$6,979**	(15.8)%	$8,285
Basic earnings per share	**$0.14**	(12.5)%	$0.16
Diluted earnings per share	**$0.14**	(12.5)%	$0.16

n/m – not meaningful

2019 versus 2018

Consolidated net sales for the first quarter ended March 31, 2019 were $619 million, an increase of $18 million from 2018. Favorable price and mix ($24 million) was partially offset by lower unit volumes ($4 million) and unfavorable foreign currency impact ($2 million).

The Company recorded operating profit of $26 million in the first quarter of 2019, compared to operating profit of $26 million in the first quarter of 2018. Operating profit for 2019 included $14 million favorable price and mix, which was partially offset by $3 million of unfavorable raw material costs. Operating profit also included lower manufacturing costs of $5 million, including better utilization, and reduced product liability costs of $4 million. This favorability was offset by $10 million of additional tariffs enacted in the first quarter of 2019 on truck and bus radial tires imported from China into the US. Additionally, the first quarter of 2019 included $5 million of restructuring costs related to the company's decision to cease light vehicle tire production at its U.K. facility. First quarter 2019 also included lower unit volume of $2 million and additional other costs of $3 million compared to the first quarter of 2018.

The principal raw materials for the Company include natural rubber, synthetic rubber, carbon black, chemicals and steel reinforcement components. Approximately 70 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, natural gas and certain principal materials, 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.

Product liability expense decreased $4 million to $11 million in the first quarter of 2019 as compared to $15 million in the first quarter of 2018. The change in quarterly expense is based on the Company's review of its reserves in the quarter, coupled with normal activity, including the addition of another quarter of self-insured incidents, settlements and changes in the amount of reserves. Additional information related to the Company's accounting for product liability costs appears in the Notes to the condensed consolidated financial statements.

Selling, general, and administrative expenses were $57 million in the first quarter of 2019 (9.2 percent of net sales) and $58 million in 2018 (9.6 percent of net sales). The decrease in selling, general and administrative expenses was driven primarily by a decrease in professional fees, partially offset by an increase in mark to market costs of stock-based liabilities.

During the first quarter of 2019, the Company recorded restructuring expense associated with the planned ceasing of light vehicle tire production at its Melksham, England facility. This initiative, which was committed to on January 17, 2019 by Cooper Tire Europe, a wholly owned subsidiary of the Company, is expected to result in charges to 2019 pre-tax earnings of approximately $8 to $11 million, of which 5 to 10 percent are expected to be non-cash charges. The Company recorded restructuring expense of $5 million for the quarter ended March 31, 2019, including $4 million of employee severance costs and $1 million of asset write-downs and other costs.

Interest expense in the first quarter of 2019 was comparable to the first quarter of 2018. Interest income increased $1 million compared to 2018 as a result of improved interest rates.

For the quarter ended March 31, 2019, other pension and postretirement benefit expense was $9 million as compared to $7 million for the quarter ended March 31, 2018. The increase is primarily the result of lower estimated returns on plan assets compared to 2018, reflective of an improved pension funded status resulting in the portfolio taking less risk in order to preserve the funded status.

Other expense increased $3 million compared with the first quarter of 2018, primarily due to the impact of foreign currency forward contracts.

For the three month period ended March 31, 2019, the Company recorded income tax expense of $6 million (effective tax rate of 46.9 percent) compared to $3 million (effective tax rate of 27.8 percent) for the same period in 2018. The effective tax rate for the three month period ended March 31, 2019 differs from the U.S. federal statutory rate of 21 percent primarily due to net discrete tax expense of $2 million recorded during the quarter, the projected mix of earnings in international jurisdictions with differing tax rates, and jurisdictions where valuation allowances are recorded. The discrete tax items primarily consist of additional 2017 transition tax and unrecognized tax benefits accrued as a result of final U.S. federal tax guidance issued during the quarter pertaining to the one-time mandatory deemed repatriation under the 2017 Tax Act.

The Company continues to maintain valuation allowances pursuant to ASC 740, "Accounting for Income Taxes," against portions of its U.S. and non-U.S. deferred tax assets at March 31, 2019 as it cannot assure the future realization of the associated tax benefits prior to their reversal or expiration. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a loss carryforward by a valuation allowance of $1 million. In addition, the Company has recorded valuation allowances of $24 million relating to non-U.S. net operating losses and other deferred tax assets for a total valuation allowance of $25 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 the associated deferred tax assets are deemed to be realizable.

Segment Operating Results

The Company has four segments under ASC 280:

- North America, composed of the Company’s operations in the U.S. and Canada;
- Latin America, composed of the Company’s operations in Mexico, Central America and South America;
- Europe; and
- Asia.

North America and Latin America meet the criteria for aggregation in accordance with ASC 280, as they are similar in their production and distribution processes and exhibit similar economic characteristics. The aggregated North America and Latin America segments are presented as “Americas Tire Operations” in the segment disclosure.

Both the Europe and Asia segments have been determined to be individually immaterial, as they do not meet the quantitative requirements for segment disclosure under ASC 280. In accordance with ASC 280, information about operating segments that are not reportable shall be combined and disclosed in an all other category separate from other reconciling items. As a result, these two segments have been combined in the segment operating results discussion. The results of the combined Europe and Asia segments are presented as “International Tire Operations” in the segment disclosure.

Americas Tire Operations Segment

(Dollar amounts in thousands)	Three Months Ended March 31,		
	2019	Change	2018
Sales	$514,936	6.1 %	$485,392
Operating profit	$38,789	24.2 %	$31,236
Operating margin	7.5 %	1.1 points	6.4 %
Total unit sales change		(0.1)%	
United States replacement market unit shipment changes:			
Passenger tires			
Segment		1.7 %	
USTMA members		1.7 %	
Total Industry		5.8 %	
Light truck tires			
Segment		(1.4)%	
USTMA members		5.6 %	
Total Industry		4.3 %	
Total light vehicle tires			
Segment		1.1 %	
USTMA members		2.2 %	
Total Industry		5.6 %	

The source of this information is the United States Tire Manufactures Association ("USTMA") and internal sources.

Overview

The Americas Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. The segment also has a joint venture manufacturing operation in Mexico, COOCSA, which supplies passenger car tires to the North American, Mexican, Central American and South American markets. The segment also markets and distributes racing, TBR and motorcycle tires. The racing and motorcycle tires are manufactured by the Company’s European Operations segment and by others. TBR tires are sourced from GRT and through an off-take agreement that was entered with Prinx Chengshan (Shandong) Tire Company Ltd. ("PCT"), the Company's former joint venture. In December 2017, the Company signed an off-take agreement with Sailun Vietnam, effective from January 1, 2018 through December 31, 2020, as an additional source of TBR tires. On December 12, 2018, Cooper Vietnam, a wholly owned subsidiary of Cooper, and Sailun Vietnam entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell TBR tires. The new joint venture is expected to begin producing tires in 2020. Major distribution channels and customers include independent tire dealers, wholesale distributors, regional and national retail tire chains, large retail chains that sell tires as well as other automotive products, mass merchandisers and digital channels. The segment does

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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 OEMs.

Sales

Net sales of the Americas Tire Operations segment increased from $485 million in the first quarter of 2018 to $515 million in the first quarter of 2019. The increase in sales was a result of favorable pricing and mix ($31 million), partially offset by unfavorable foreign currency impact ($1 million). Unit shipments for the segment decreased 0.1 percent in the first quarter of 2019 compared with the first quarter of 2018. In the U.S., the segment's unit shipments of total light vehicle tires increased 1.1 percent in the first quarter of 2019 compared with the same period in 2018. This increase compares with a 2.2 percent increase in total light vehicle tire shipments experienced by the USTMA, and a 5.6 percent increase in total light vehicle tire shipments experienced for the total industry, which includes an estimate for non-USTMA members.

Operating Profit

Operating profit for the segment increased $8 million to $39 million in 2019. Operating profit for the first quarter included $15 million of favorable price and mix, which was partially offset by $4 million of unfavorable raw material costs. The quarter also included $6 million of favorable manufacturing costs, including better utilization, and $4 million of lower product liability costs. These were partially offset by $10 million of additional tariffs enacted on truck and bus radial tires imported from China, $2 million of unfavorable SG&A costs and increased other costs of $1 million.

The segment's internally calculated raw material index of 160.4 for the quarter ended March 31, 2019 was an increase of 2.4 percent from the first quarter of 2018.

International Tire Operations Segment

(Dollar amounts in thousands)	Three Months Ended March 31,		
	2019	Change	2018
Sales	$143,785	(10.8)%	$161,244
Operating (loss) profit	$(1,339)	n/m	$7,434
Operating margin	(0.9)%	(5.5) points	4.6%
Total unit sales change		(9.1)%	

Overview

The International Tire Operations segment is the combination of the Europe and Asia operating segments. The European operations include manufacturing operations in the U.K. and Serbia. The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for domestic and global markets. The Serbian entity manufactures passenger car and light truck tires primarily for the European markets and for export to the North American segment. The Asian operations are located in the PRC. Cooper Kunshan Tire manufactures passenger car and light truck tires both for the Chinese domestic market and for export to markets outside of the PRC. GRT, a joint venture manufacturing facility located in the PRC, serves as a global source of TBR tire production for the Company. The segment also had another joint venture in the PRC, PCT, which manufactured and marketed truck and bus radial and bias tires, as well as passenger car and light truck tires for domestic and global markets. The Company sold its ownership interest in this joint venture in November 2014, and the Company began procuring certain TBR and passenger car tires under off-take agreements with PCT through mid-2018, which were subsequently extended and now expire in mid-2020. In December 2017, the Company signed an off-take agreement with Sailun Vietnam, as an additional source of TBR tires. On December 12, 2018, Cooper Vietnam, a wholly owned subsidiary of Cooper, and Sailun Vietnam entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell TBR tires in addition to the off-take agreement. The new joint venture is expected to begin producing tires in 2020. The segment sells a majority of its tires in the replacement market, with a portion also sold to OEMs.

On January 17, 2019, Cooper Tire Europe, a wholly owned subsidiary of the Company, committed to a plan to cease light vehicle tire production at its Melksham, England facility. Light vehicle tire production is expected to be phased out and an estimated 300 roles will be eliminated at the site. Cooper Tire Europe will obtain light vehicle tires to meet customer needs from other production sites within the Company's global production network. Approximately 400 roles will remain in Melksham to support the functions that continue there, including motorsports and motorcycle tire production, the materials business, Cooper Tire Europe headquarters, sales and marketing, and the Europe Technical Center.

Sales
Net sales of the International Tire Operations segment decreased $17 million, or 10.8 percent, from the first quarter of 2018. The segment experienced $14 million of lower unit volume, $2 million of unfavorable foreign currency impact and $1 million of unfavorable price and mix. Segment unit volume was down 9.1 percent, primarily due to lower intercompany sales.

Operating Profit
Operating profit for the segment decreased $8 million to an operating loss of $1 million in the first quarter of 2019. The decrease was driven by Melksham restructuring charges of $5 million. Additionally, the segment experienced $2 million of lower unit volume, $2 million of unfavorable price and mix and $1 million of higher manufacturing costs, partially offset by $2 million of decreased raw material costs, in the first quarter of 2019.

Outlook for the Company
For 2019, management continues to expect modest unit volume growth compared to 2018.
Operating profit margin is expected to improve throughout the year, with the full year exceeding 2018.
The Company expects its full year 2019 effective tax rate in a range between 23 and 26 percent.
The Company expects capital expenditures to range between $190 and $210 million. This does not include capital contributions related to Cooper’s pro rata share of the previously announced joint venture with Sailun Vietnam or other potential manufacturing footprint investments.
The Company expects total restructuring charges in England to range between $8 to $11 million, including $5 million already incurred in the first quarter of 2019.
The 2019 expectations include tariffs already in place, but do not include rate changes or additional tariffs that continue to be considered, but have not yet been imposed.

Liquidity and Capital Resources
Sources and uses of cash in operating activities
Net cash used by operating activities of continuing operations was $96 million in the first quarter of 2019 compared to $77 million in the first quarter of 2018. Net income provided $7 million in 2019 as compared to net income of $9 million in 2018. In the first quarter of 2019, non-cash items contributed $47 million, compared to $37 million contributed in the first quarter of 2018, which included an unfavorable decrease in the Company's LIFO reserve of $9 million. In the first quarter of 2019, changes in working capital used $151 million, as compared to the usage of $123 million in the first quarter of 2018. The increased 2019 usage was driven primarily by decreases in the Company's customer reserve and bonus related accruals from December 31, 2018, as such amounts were settled in the first quarter of 2019. While these reserve balances are comparable at March 31, 2019 and 2018, respectively, these reserves were higher at December 31, 2018 versus December 31, 2017, resulting in the year over year variance in first quarter activity.
Sources and uses of cash in investing activities
Net cash used in investing activities reflect capital expenditures of $60 million in the first quarter of both 2019 and 2018, respectively.
Sources and uses of cash in financing activities
In the first quarter of 2019, the Company added $7 million of short-term debt at its Asian operations. In the first quarter of 2018, the Company repaid $5 million of short-term debt at its Asian operations.
The Company repurchased $16 million of its common stock in the first quarter of 2018 as part of the Company’s share repurchase program authorized by the Board of Directors. No share repurchases occurred in the first quarter of 2019.
Dividends paid on the Company’s common shares were $5 million in the first quarter of both 2019 and 2018.
Available cash, credit facilities and contractual commitments
At March 31, 2019, the Company had cash and cash equivalents of $212 million.

Domestically, the Company has a revolving credit facility with a consortium of banks that provides up to $400 million based on available collateral, including a $110 million letter of credit subfacility, and is set to expire in February 2023. The Company also has an accounts receivable securitization facility with a borrowing limit of up to $150 million, based on available collateral, which expires in February 2021.

These credit facilities are undrawn, other than to secure letters of credit, at March 31, 2019. The Company's additional borrowing capacity under these facilities, net of amounts used to back letters of credit and based on available collateral at March 31, 2019, was $510 million.

The Company's operations in Asia have annual renewable unsecured credit lines that provide up to $66 million of borrowings and do not contain significant financial covenants. The additional borrowing capacity on the Asian credit lines totaled $46 million at March 31, 2019.

At March 31, 2019, $174 million of unsecured notes due in December 2019 are classified within the current portion of long-term debt. The Company intends to finance all or a portion of the maturing debt through borrowings.

The Company believes that its cash and cash equivalent balances, along with available cash from operating cash flows and credit facilities, will be adequate to fund its typical needs, including working capital requirements, projected capital expenditures, including its portion of capital expenditures in its partially-owned subsidiaries, capital contributions in the joint venture with Sailun Vietnam, dividend and share repurchase goals and maturing long-term debt. The Company also believes it has access to additional funds from capital markets to fund potential strategic initiatives and to finance maturing long-term debt. The entire amount of short-term notes payable outstanding at March 31, 2019 is debt of consolidated subsidiaries. The Company expects its subsidiaries to refinance or pay these amounts within the next twelve months.

The following table summarizes long-term debt at March 31, 2019:

	March 31, 2019
Parent company	
8% unsecured notes due December 2019	**$173,578**
7.625% unsecured notes due March 2027	**116,880**
Finance leases and other	**5,459**
	295,917
Less: unamortized debt issuance costs	**638**
	295,279
Less: current maturities	**173,974**
	$121,305

Forward Looking Statements

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

It is possible that actual results may differ materially from projections or expectations due to a variety of factors, including but not limited to:

- volatility in raw material and energy prices, including those of rubber, steel, petroleum-based products and natural gas or the unavailability of such raw materials or energy sources;
- the failure of the Company's suppliers to timely deliver products or services in accordance with contract specifications;
- changes to tariffs or trade agreements, or the imposition of new or increased tariffs or trade restrictions, imposed on tires or materials or manufacturing equipment which the Company uses, including changes related to tariffs on automotive imports, as well as on tires, raw materials and tire-manufacturing equipment

imported into the U.S. from China;

- changes in economic and business conditions in the world, including changes related to the United Kingdom’s decision to withdraw from the European Union;
- the inability to obtain and maintain price increases to offset higher production, tariffs or material costs;
- the impact of the recently enacted tax reform legislation;
- increased competitive activity including actions by larger competitors or lower-cost producers;
- the failure to achieve expected sales levels;
- changes in the Company’s customer or supplier relationships or distribution channels, including the write-off of outstanding accounts receivable or loss of particular business for competitive, credit, liquidity, bankruptcy, restructuring or other reasons;
- the failure to develop technologies, processes or products needed to support consumer demand or changes in consumer behavior, including changes in sales channels;
- the costs and timing of restructuring actions and impairments or other charges resulting from such actions, including the possible outcome of the recently announced decision to cease light vehicle tire production in the U.K., or from adverse industry, market or other developments;
- consolidation or other cooperation by and among the Company’s competitors or customers;
- inaccurate assumptions used in developing the Company’s strategic plan or operating plans, or the inability or failure to successfully implement such plans or to realize the anticipated savings or benefits from strategic actions;
- risks relating to investments and acquisitions, including the failure to successfully integrate them into operations or their related financings may impact liquidity and capital resources;
- the ultimate outcome of litigation brought against the Company, including product liability claims, which could result in commitment of significant resources and time to defend and possible material damages against the Company or other unfavorable outcomes;
- a disruption in, or failure of, the Company’s information technology systems, including those related to cybersecurity, could adversely affect the Company’s business operations and financial performance;
- government regulatory and legislative initiatives including environmental, healthcare, privacy and tax matters;
- volatility in the capital and financial markets or changes to the credit markets and/or access to those markets, including access for refinancing the Company's unsecured notes due in December 2019;
- changes in interest or foreign exchange rates or the benchmarks used for establishing the rates;
- an adverse change in the Company’s credit ratings, which could increase borrowing costs and/or hamper access to the credit markets;
- failure to implement information technologies or related systems, including failure by the Company to successfully implement ERP systems;
- the risks associated with doing business outside of the U.S.;
- technology advancements;
- the inability to recover the costs to refresh existing products or develop and test new products or processes;
- the impact of labor problems, including labor disruptions at the Company, its joint ventures, or at one or more of its large customers or suppliers;
- failure to attract or retain key personnel;
- changes in pension expense and/or funding resulting from the Company’s pension strategy, investment performance of the Company’s pension plan assets and changes in discount rate or expected return on plan assets assumptions, or changes to related accounting regulations;
- changes in the Company’s relationship with its joint venture partners or suppliers, including any changes with respect to its former PCT joint venture’s production of TBR products;
- the ability to find and develop alternative sources for products supplied by PCT;
- a variety of factors, including market conditions, may affect the actual amount expended on stock repurchases; the Company’s ability to consummate stock repurchases; changes in the Company’s results of operations or financial conditions or strategic priorities may lead to a modification, suspension or cancellation of stock repurchases, which may occur at any time;

- the inability to adequately protect the Company's intellectual property rights; and
- the inability to use deferred tax assets.

It is not possible to foresee or identify all such factors. Any forward-looking statements in this report are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances. Prospective investors are cautioned that any such statements are not a guarantee of future performance and actual results or developments may differ materially from those projected.

The Company makes no commitment to update any forward-looking statement included herein or to disclose any facts, events or circumstances that may affect the accuracy of any forward-looking statement. Further information covering issues that could materially affect financial performance is contained under Risk Factors below and in the Company's other filings with the U. S. Securities and Exchange Commission ("SEC").

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at March 31, 2019 from those detailed in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2018.

Item 4. CONTROLS AND PROCEDURES

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

The Company, under the supervision and with the participation of management, including the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as of March 31, 2019 ("Evaluation Date")). Based on its initial evaluation, the Company's CEO and CFO concluded that its disclosure controls and procedures were effective as of the Evaluation Date.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are product liability cases in which individuals involved in motor vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. After reviewing all of these proceedings, and taking into account all relevant factors concerning them, the Company does not believe that any liabilities resulting from these proceedings are reasonably likely to have a material adverse effect on its liquidity, financial condition or results of operations in excess of amounts recorded at March 31, 2019. 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.

Item 1A. RISK FACTORS

Some of the more significant risk factors related to the Company 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. Even if the Company is able to pass along these higher costs, its profitability may be adversely affected until it is able to do so. Decreasing costs for raw materials could also affect margins if the Company is unable to maintain its pricing structure due to the need to offer price reductions to remain competitive. Further, if the Company is unable to obtain adequate supplies of raw materials in a timely manner for any reason, its operations could be interrupted or otherwise adversely affected.

The Company is facing heightened risks due to the uncertain 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 or reduced sales volumes for the business.

In addition, the bankruptcy, restructuring, consolidation or other cooperation of one or more of the Company's major customers or suppliers, as well as the strategic actions of competitors, could result in the write-off of accounts receivable, a reduction in purchases of the Company's products or a supply disruption to its facilities, which could harm the Company's results of operations, financial condition and liquidity.

The Company's results could be impacted by changes in tariffs, trade agreements or other trade restrictions imposed by the U.S. or other governments on imported tires, raw materials or equipment used in tire manufacturing.

The Company's ability to competitively source and sell tires can be significantly impacted by changes in tariffs, changes or repeals of trade agreements, including withdrawal from or material modifications to NAFTA, including the implementation of the USMCA, or certain other international trade agreements, or other trade restrictions or retaliatory actions imposed by various governments. Other effects, including impacts on the price of tires, responsive actions from governments and the opportunity for competitors to establish a presence in markets where the Company participates, could also have significant impacts on the Company's results.

For example, antidumping and countervailing duty investigations into certain passenger car and light truck tires imported from the PRC into the United States were initiated on July 14, 2014. The determinations announced in both investigations were affirmative and resulted in the imposition of significant additional duties from each.

Antidumping and countervailing duty investigations into certain truck and bus tires imported from the PRC into the U.S. were initiated on January 29, 2016. The preliminary determinations announced in both investigations were affirmative and resulted in the imposition of significant additional duties from each. On February 22, 2017, the International Trade Commission ("ITC") made a final determination that the U.S. market had not suffered material injury because of imports of truck and bus tires from China. As a result of this decision, preliminary antidumping and countervailing duties from Chinese truck and bus tires imported subsequent to the preliminary determination were not collected and any amounts previously paid were refunded. On April 14, 2017, the United Steelworkers Union filed a civil action challenging the ITC's decision not to impose duties on truck and bus tires from China imported into the U.S. and that case is still pending. On November 1, 2018, the Court of International Trade ("CIT") remanded the case back to the ITC for reconsideration. On January 30, 2019, the ITC reversed its earlier decision and made an affirmative determination of material injury. On February 15, 2019, the determination was published in the Federal Register and significant duties were imposed on Chinese truck and bus tire imports. The ITC's re-determination, along with comments from the parties regarding the re-determination, are due to be filed with the CIT by May 31, 2019. The CIT will then make a final determination.

Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation, passenger, light truck and truck and bus tires, raw materials and tire-manufacturing equipment from the PRC imported into the U.S. became subject to additional 10 percent duties effective September 24, 2018. The scheduled increase to 25 percent effective March 2, 2019 was delayed indefinitely pending the outcome of the current negotiations between the U.S. and China regarding a trade agreement. Future changes to duty percentages, if any, are unknown at this time. Retaliatory duties on U.S. products have been implemented in response to these additional duties by China. In addition, depending on the outcome of the Section 232 National Security Investigation of Automobiles, Including Cars, SUVs, Vans and Light Trucks, and Automotive Parts, passenger car and light truck tires imported into the U.S. may be subject to an additional duty.

The imposition of additional duties or other trade restrictions in the U.S. or elsewhere on raw materials or tire-manufacturing equipment used by the Company or on certain tires imported from the PRC or other countries will result in higher costs and potentially lower margins, or in the case of finished goods, in those tires being diverted to other regions of the world, such as Europe, Latin America or elsewhere in Asia, which could materially harm the Company's results of operations, financial condition and liquidity.

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 tire industry is a highly competitive, global industry. Some of the Company's competitors are larger companies with greater financial resources. Intense competitive activity in the replacement tire industry, including consolidation or other cooperation by and among the Company's competitors, has caused, and will continue to cause, pressures on the Company's business, as well as pressure on certain of the Company's customers, suppliers or distribution network. As the Company increases its presence in the original equipment market, the demand for products by the OEM's will be impacted by automotive vehicle production. The Company's ability to compete successfully will depend in part on its ability to balance capacity with demand, leverage global purchasing of raw materials, make required investments to improve productivity, eliminate redundancies and increase production at low-cost, high-quality supply sources. If the Company is unable to offset continued pressures with improved operating efficiencies, its sales, margins, operating results and market share would decline and the impact could become material on the Company's earnings.

The Company is facing supply risks related to certain tires it purchases from PCT.

In 2014, the Company sold its ownership interest in PCT and entered into off-take agreements with PCT to provide the continuous supply of certain TBR and passenger car tires for the Company through mid-2018. The agreements have been extended and now expire in mid-2020. If there are any disruptions in or quality issues with the supply of TBR products from PCT, it could have a material negative impact on the Company's business. The Company is actively pursuing options to ensure the uninterrupted supply of these tires to meet the demands of the business beyond the terms of the PCT off-take agreements, including sourcing through GRT, an off-take agreement with Sailun Vietnam and the recently announced joint venture between Cooper Vietnam and Sailun Vietnam, which is expected to begin producing tires in 2020, but there can be no assurance that the Company will be able to do so in a timely manner.

If the Company fails to develop technologies, processes or products needed to keep up with rapidly evolving distribution channels and to support consumer demand or, changes in consumer behavior, it may lose significant market share or be unable to recover associated costs.

The Company's tire sales, margins and profitability may be significantly impacted if it does not develop or have available technologies, processes, including distribution methods, or products that competitors may be developing and consumers or dealers are demanding. This includes, but is not limited to, changes in the design of and materials used to manufacture tires, changes in the types of tires consumers desire and changes in the vehicles consumers are purchasing. Additionally, the Company is also impacted by changes in the way consumers buy tires and failure to effectively compete in various sales and marketing channels, including digital channels and others in which the Company has been less active in the past, such as through mass merchandisers, which have negotiating leverage and costs associated with their operating procedures that are unique to their needs.

Technologies or processes may also be developed by competitors that better distribute tires to consumers, including through wholly-owned distributors, which could affect the Company's customers and implementation of its strategic plan.

An increase in consumer preference for car- and ride-sharing services, as opposed to automobile ownership, may result in a long term reduction in the number of vehicles per capita. Additionally, refreshing existing products and 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.

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.

The Company faces both general industry and company-specific challenges. These include volatile raw material costs, increasing product complexity and pressure from competitors with greater resources or 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 are building a sustainable cost competitive position, driving top-line profitable growth and building organizational capabilities and enablers to support strategic goals.

The Company continually reviews and updates its business plans to achieve these imperatives. If the assumptions used in developing the Company's business plans 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 business plans, it may not be able to achieve or sustain future profitability, which could impair its ability to meet debt and other obligations and could otherwise negatively affect its operating results, financial condition and liquidity.

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

The Company routinely evaluates potential investments and acquisitions and may pursue additional investment and acquisition opportunities, some of which could be material to its business. The Company cannot provide assurance whether it will be successful in pursuing and integrating any investment or acquisition opportunities or what the consequences of any investment or acquisition would be. The Company may encounter various risks in any investment or acquisition, 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;
- potential asset impairment charges, due to inability to meet operating plans; 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 investments or acquisitions from internally generated funds, bank borrowings, public offerings or private placements of equity or debt securities, or a combination of the foregoing. Investments and acquisitions may involve the expenditure of significant funds and management time.

Investments and 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.

In addition, the Company's business plans call for growth. If the Company is unable to identify or execute on appropriate opportunities for acquisition, investment or growth, its business could be materially adversely affected.

The Company has and could in the future incur restructuring charges and other costs as it continues to execute actions in an effort to improve future profitability and competitiveness and may not achieve the anticipated savings and benefits from these actions.

The Company has and may in the future initiate restructuring actions designed to improve future profitability and competitiveness, and enhance the Company's flexibility, including the outcome of the recently announced restructuring in the U.K., as well as potential future outcomes from the Company's ongoing region by region global footprint assessment. The Company may not realize anticipated savings or benefits from the U.K. action, or future actions, in full or in part or within the time periods it expects. The Company is also subject to the risks of labor unrest, negative publicity and business disruption in connection with these actions. Failure to realize anticipated savings or benefits from the Company's actions could have an adverse effect on the business and could result in potential unexpected costs or other impacts. Such restructuring actions and impairments or other charges could have a significant negative effect on the Company's earnings or cash flows in the short-term.

Any interruption in the Company's skilled workforce, or that of its suppliers or customers, 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. Competition for these employees is intense and the Company could experience difficulty in hiring and retaining the personnel necessary to support its business. Further, a significant number of the Company's employees are currently represented by unions. If the Company is unable to resolve any labor disputes or if there are work stoppages or other work disruptions at the Company or any of its suppliers or customers, the Company's business and operating results could suffer. See also related comments under "The Company is facing supply risks related to certain tires it purchases from PCT."

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, information technology and senior management professionals. Competition for these employees is intense and the Company could experience difficulty 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.

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, including the Company's unsecured notes due in December 2019, or working capital needs or investments in the business 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 and bank financings. Additionally, any inability to access the capital markets or bank financings, 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, suspend stock repurchases, 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, which includes using joint ventures and partially-owned subsidiaries.”

The Company’s operations in Asia have been or will be financed in part using multiple loans from several lenders to finance working capital needs. These loans are generally for terms of one year or less. Therefore, debt maturities occur frequently and access to the capital markets and bank financings is crucial to the Company’s ability to maintain sufficient liquidity to support its operations in Asia.

Increases in interest rates or changes in credit ratings may negatively impact the Company.
Certain of the Company's variable rate debt, including its revolving credit facility, currently uses LIBOR as a benchmark for establishing the interest rate. LIBOR is the subject of recent proposals for reform. These reforms and other pressures may cause LIBOR to disappear entirely or to perform differently than in the past. The consequences of these developments with respect to LIBOR cannot be entirely predicted but could result in an increase in the cost of variable rate debt. The interest rates under on the Company's term loans and revolving credit facilities can vary based on the Company's credit ratings. The Company's policy is to manage interest rate risk by entering into both fixed and variable rate debt arrangements. Interest rate swaps are also used to minimize worldwide financing cost and to achieve a desired mix of fixed and variable rate debt. The Company utilizes derivative financial instruments to enhance its ability to manage risk, including interest rate exposures that exist as part of ongoing business operations. The company does not enter into contracts for trading purposes, nor is it a party to any leveraged derivative instruments. The use of derivative financial instruments is monitored through regular communication with senior management and the utilization of written guidelines. However, the Company's use of these instruments may not effectively limit or eliminate exposure to changes in interest rates. Therefore, the Company cannot provide assurance that future credit rating or interest rate changes will not have a material negative impact on its business, financial position or operating results.

A disruption in, or failure of, the Company’s information technology systems, including those related to cybersecurity, could adversely affect the Company’s business operations and financial performance.
The Company relies on the accuracy, capacity and security of its information technology systems across all of its major business functions, including its research and development, manufacturing, sales, financial and administrative functions. While the Company maintains some of its critical information technology systems, it is also dependent on third parties to provide important information technology services relating to, among other things, human resources, electronic communications and certain finance functions. Additionally, the Company collects and stores sensitive data, including intellectual property, proprietary business information and the proprietary business information of its customers and suppliers, as well as personally identifiable information of the Company’s customers and employees, in

data centers and on information technology networks. In addition, the European Union's General Data Protection Regulation ("GDPR"), which came into effect in May 2018, creates a range of new compliance obligations for companies that process personal data of European Union residents, and increases financial penalties for non-compliance. As a company that processes personal data of European Union residents, we bear the costs of compliance with the GDPR and are subject to the potential for fines and penalties in the event of a breach of the GDPR. Aside from the European Union, other jurisdictions have enacted, or are considering, regulations regarding data privacy. Despite the security measures that the Company has implemented, including those related to cybersecurity, its systems could be breached or damaged by computer viruses, natural or man-made incidents or disasters or unauthorized physical or electronic access. Furthermore, the Company may have little or no oversight with respect to security measures employed by third-party service providers, which may ultimately prove to be ineffective at countering threats. A system failure, accident or security breach could result in business disruption, theft of its intellectual property, trade secrets or customer information and unauthorized access to personnel information. To the extent that any system failure, accident or security breach results in disruptions to its operations or the theft, loss or disclosure of, or damage to, its data or confidential information, the Company's reputation, business, results of operations, cash flows and financial condition could be materially adversely affected. In addition, the Company may be required to incur significant costs to protect against and, if required, remediate the damage caused by such disruptions or system failures in the future.

The Company may be adversely affected by legal actions, including product liability claims which, if successful, could have a negative impact on its financial position, cash flows and results of operations.

The Company's operations expose it to legal actions, including potential liability for personal injury or death as an alleged result of the failure of or conditions in the products that it designs, manufactures and sells. Specifically, the Company is a party to a number of product liability cases in which individuals involved in motor vehicle accidents seek damages resulting from allegedly defective tires that it manufactured. Product 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 and related reserves could have a significant effect on the Company's financial position, cash flows and results of operations.

From time to time, the Company is also subject to audits, litigation or other commercial disputes and other legal proceedings relating to its business. Due to the inherent uncertainties of any litigation, commercial disputes or other legal proceedings, the Company cannot accurately predict their ultimate outcome, including the outcome of any related appeals. An unfavorable outcome could materially adversely impact the Company's financial condition, cash flows and results of operations.

The Company 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., Europe, Mexico, the PRC and Vietnam. The Company has a wholly-owned manufacturing entity, Cooper Kunshan Tire, and is the majority owner of GRT, both in the PRC. The Company also is the majority owner of COOCSA, a manufacturing entity in Mexico, and has established operations in Serbia and the U.K. PCT, located in the PRC, is currently a supplier of TBR tires for the Company and the Company entered into an off-take agreement with Sailun Vietnam, located in Vietnam, for the supply of TBR tires. Additionally, Cooper Vietnam recently formed a joint venture with Sailun Vietnam, which is expected to begin producing tires in 2020. There are a number of risks in doing business abroad, including political and economic uncertainty, social unrest, sudden changes in laws and regulations, ability to enforce existing or future contracts, 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. For example, the Company could be adversely affected by violations of the Foreign Corrupt Practices Act ("FCPA") and similar worldwide anti-bribery laws as well as export controls and economic sanction laws. The FCPA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials and, in some cases, other persons, for the purpose of obtaining or retaining business or obtaining another improper benefit. Violations of these laws and regulations could result in civil and criminal fines, penalties and sanctions against the Company, its officers or its employees, prohibitions on the conduct of the Company's business and on its ability to offer products and services in one or more countries, and could also harm the Company's reputation, business and results of operations. 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. See also related comments under "The Company's results could be impacted by changes in tariffs, trade agreements or other trade restrictions imposed by the U.S. or other governments on imported tires or raw materials", "There are risks associated with the Company's global strategy, which includes using joint ventures and partially-owned subsidiaries" and "The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets or the Company's business."

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, both as the majority and minority shareholder, and other partially-owned subsidiaries, including the recently formed Vietnam joint venture with Sailun Vietnam. 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 stockholders' agreements; conflicts with joint venture partners; the possibility of a joint venture partner taking valuable knowledge from the Company; and risk of being denied access to the capital markets, which could lead to resource demands on the Company in order to maintain or advance its strategy. The Company's outstanding notes and primary credit facility contain cross default provisions in the event of certain defaults by the Company under other agreements with third parties. For further discussion of access to the capital markets, see also related comments under "The Company has a risk due to volatility of the capital and financial markets."

The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets or the Company's business.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The U.K. is currently negotiating the terms of its exit from the European Union ("Brexit"). In November 2018, the U.K. and the European Union agreed upon a draft Withdrawal Agreement that sets out the terms of the U.K.'s departure, including commitments on citizen rights after Brexit, a financial settlement from the U.K., and a transition period through December 31, 2020 to allow time for a future trade deal to be agreed. The U.K. Parliament has not approved the draft Withdrawal Agreement but has voted in favor of a delayed exit date. The European Union has agreed to a delay until October 31, 2019, but with the exit date contingent on the approval of the Withdrawal Agreement. This means that both the date and the terms of the U.K.'s withdrawal remain highly uncertain.

If the U.K. leaves the European Union with no agreement, it will likely have an adverse impact on labor and trade in addition to creating further short-term uncertainty and currency volatility. In the absence of a future trade deal, the U.K.'s trade with the European Union and the rest of the world would be subject to tariffs and duties set by the World Trade Organization. Additionally, the movement of goods and personnel between the U.K. and the remaining member states of the European Union will be subject to additional inspections and documentation checks, leading to possible delays at ports of entry and departure. These changes to the trading relationship between the U.K and European Union would likely result in increased cost of goods imported into and exported from the U.K. and may decrease the profitability of the Company's U.K. and other operations. Additional currency volatility could drive a weaker British pound, which increases the cost of goods imported into the U.K. operations and may decrease the profitability of the U.K. operations. A weaker British pound versus the U.S. dollar also causes local currency results of U.K. operations to be translated into fewer U.S. dollars during a reporting period. With a range of outcomes still possible, the impact from Brexit remains uncertain and will depend, in part, on the final outcome of tariff, trade, regulatory and other negotiations.

Compliance with legal and 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. Periodic changes as the result of elections in the U.S. and worldwide make it difficult to predict the legislative and regulatory changes that may occur.

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 and comply with all applicable regulations and standards, 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, environmental, privacy and data protection, 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 and regulations, be found liable and be subject to additional costs because of these laws and regulations.

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 develop or 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 has implemented Enterprise Resource Planning systems in the United States and other locations. The Company is evaluating its available options for integrating information technology solutions outside of the United States, which will require significant amounts of capital and human resources to deploy. These requirements may be significant and exceed Company projections. Throughout integration of the systems, there are also risks created to the Company's ability to successfully and efficiently operate.

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, changes in its assumptions relating to the expected return on plan assets, including changes necessitated by movements in the glide path whereby a target return-seeking allocation is followed based upon a given funded ratio level, updates to mortality tables and the impact of changes to the Company's pension strategy. 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 Condensed Consolidated Balance Sheet or significant cash requirements.

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 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 product 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 valuation allowance in the U.K., as well as a small valuation allowance for the portion of its U.S. deferred tax assets primarily associated with a loss carryforward. In addition, the Company has recorded valuation allowances for deferred tax assets primarily associated with other non-U.S. net operating losses.

The Company's assessment of the realizability of deferred tax assets is based in part on certain assumptions regarding future profitability, and potentially adverse business conditions could have a negative impact on the future realizability of the deferred tax assets and therefore impact the Company's future operating results or financial position.

Compliance with and changes in tax laws, including recently enacted tax reform legislation in the United States, could materially and adversely impact our financial condition, results of operations and cash flows.

The Company is subject to extensive tax liabilities, including federal and state income taxes and transactional taxes such as excise, sales and use, payroll, franchise, withholding and property taxes. New tax laws and regulations and changes in existing tax laws and regulations could result in increased expenditures by the Company for tax liabilities in the future and could materially and adversely impact the Company's financial condition, results of operations and cash flows.

Recently enacted tax reform legislation has made substantial changes to U.S. tax law, including a reduction in the corporate tax rate, a limitation on deductibility of interest expense, a limitation on the use of net operating losses to offset future taxable income, the allowance of immediate expensing of capital expenditures and deemed repatriation of foreign earnings. The Company expects this legislation to have significant effects, some of which may be adverse. For example, the reduction in the corporate tax rate has resulted in a reduction in the value of the Company's existing deferred tax assets, and consequently was a charge to earnings in 2017.

Additionally, the Company’s income tax returns are subject to examination by federal, state and local tax authorities in the U.S. and tax authorities outside the U.S. Based upon the outcome of tax examinations, judicial proceedings, or expiration of statutes of limitations, it is possible that the ultimate resolution of these unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities. Such factors could have an adverse effect on the Company’s provision for income taxes and the cash outlays required to satisfy income tax obligations.

Environmental issues, including climate change, or legal, regulatory or market measures to address environmental issues, may negatively affect the Company's business and operations and 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, including increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change, and the Company expects that additional requirements with respect to environmental matters will be imposed on it in the future.

There is also growing concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns, and the frequency and severity of extreme weather and natural disasters. In the event that issues related to such climate change have a negative effect on the Company's business, it may be subjected to decreased availability or less favorable pricing for certain raw materials, including natural rubber. Natural disasters and extreme weather conditions may also disrupt the productivity of the Company's facilities or the operation of its supply chain.

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 has been and may continue to be impacted by currency fluctuations, which may reduce reported results for the Company’s international operations and otherwise adversely affect the business.

Because the Company conducts transactions in various non-U.S. currencies, including the Euro, Canadian dollar, British pound sterling, Swiss franc, Swedish kronar, Norwegian krone, Mexican peso, Chinese yuan, Serbian dinar and Brazilian real, fluctuations in foreign currency exchange rates may impact the Company’s financial condition, results of operations and cash flows, despite currency hedging actions by the Company. The Company’s operating results are subject to the effects of fluctuations in the value of these currencies and fluctuations in the related currency exchange rates. As a result, the Company’s sales have historically been affected by, and may continue to be affected by, these fluctuations. Exchange rate movements between currencies in which the Company sells its products have been affected by and may continue to result in exchange losses that could materially affect results. During times of strength of the U.S. dollar, the reported revenues of the Company’s international operations will be reduced because local currencies will translate into fewer dollars. In addition, a strong U.S. dollar may increase the competitiveness of competitors based outside of the United States. As a result, continued strengthening of the U.S. dollar may have a material adverse effect on the Company’s financial condition, results of operations and cash flows. A weak U.S. dollar could increase the cost of goods imported into the Company's U.S. operations and other goods imported in U.S. dollars at other locations and may decrease the profitability of the Company's operations. As a result, continued weakening of the U.S. dollar may have a material adverse effect on the Company’s financial condition, results of operations and cash flows.

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 protect its intellectual property or to prevent or deter challenges 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 the Company believes it has rights to use all intellectual property in the Company’s use, if the Company is found to infringe on the rights of others it could be adversely impacted.

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

The Financial Accounting Standards Board is considering or has issued for future adoption several projects which may result in the modification of accounting standards affecting the Company. Any such changes could have a negative impact on the Company’s financial statements.

The Company is facing risks relating to healthcare legislation.

The Company is facing risks emanating from legislation in the U.S., including the Patient Protection and Affordable Care Act and the related Healthcare and Education Reconciliation Act, which are collectively referred to as healthcare legislation. The future of this major legislation and any replacement is now in question and the ultimate cost and the potentially adverse impact to the Company and its employees cannot be quantified at this time.

Item 2. ISSUER PURCHASES OF EQUITY SECURITIES

The Company has not purchased equity securities registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, in the quarter.

Period (1)	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs**
January 1, 2019 through January 31, 2019	**—**	**$ —**	**—**	**$ 193,123**
February 1, 2019 through February 28, 2019	**—**		**—**	**193,123**
March 1, 2019 through March 31, 2019	**—**		**—**	**193,123**
Total	**—**		**—**	

(1) On February 16, 2017, the Board of Directors increased the amount under and expanded the duration of the Company's existing share repurchase program (as amended, the "2017 Repurchase Program"). The 2017 Repurchase Program allows the Company to repurchase up to $300,000, excluding commissions, of the Company’s common stock through December 31, 2019. The approximately $95,634 remaining authorization under the Company's existing share repurchase program as of February 16, 2017 was included in the $300,000 maximum amount authorized by the 2017 Repurchase Program. No other changes were made. The 2017 Repurchase Program does not obligate the Company to acquire any specific number of shares and can be suspended or discontinued at any time without notice. Under the 2017 Repurchase Program, shares can be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

Item 6. EXHIBITS

(a) Exhibits

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

SIGNATURES

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

COOPER TIRE & RUBBER COMPANY

/s/ Christopher J. Eperjesy
Christopher J. Eperjesy
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Mark A. Young
Mark A. Young
Director of External Reporting
(Principal Accounting Officer)

April 29, 2019
(Date)