

# COOPER TIRE & RUBBER CO

## FORM 10-Q (Quarterly Report)

Filed 05/02/14 for the Period Ending 03/31/14

Address	LIMA & WESTERN AVENUES FINDLAY, OH 45840
Telephone	4194231321
CIK	0000024491
Symbol	CTB
SIC Code	3011 - Tires and Inner Tubes
Industry	Tires
Sector	Consumer Cyclical
Fiscal Year	12/31

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549**

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2014

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)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

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

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

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

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

Number of shares of common stock of registrant outstanding  
at April 30, 2014: 63,475,820

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Part I. FINANCIAL INFORMATION  
Item 1. FINANCIAL STATEMENTS

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

	December 31, 2013	March 31, 2014 (Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 397,731	\$ 335,944
Notes receivable	86,965	78,628
Accounts receivable, less allowances of \$16,996 at 2013 and \$15,514 at 2014	360,405	461,648
Inventories at lower of cost or market:		
Finished goods	360,686	449,134
Work in process	35,576	42,075
Raw materials and supplies	120,913	130,779
	517,175	621,988
Other current assets	92,514	91,189
Total current assets	1,454,790	1,589,397
Property, plant and equipment:		
Land and land improvements	51,186	51,162
Buildings	326,635	329,017
Machinery and equipment	1,847,576	1,867,271
Molds, cores and rings	246,760	243,653
	2,472,157	2,491,103
Less accumulated depreciation and amortization	1,497,888	1,516,220
Net property, plant and equipment	974,269	974,883
Goodwill	18,851	18,851
Intangibles, net of accumulated amortization of \$63,354 at 2013 and \$66,113 at 2014	160,308	156,712
Restricted cash	2,759	1,169
Deferred income taxes	111,644	107,367
Other assets	15,526	15,559
Total assets	<u>\$2,738,147</u>	<u>\$2,863,938</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Notes payable	\$ 22,105	\$ 25,001
Accounts payable	302,422	359,230
Accrued liabilities	211,090	230,341
Income taxes	11,098	15,348
Current portion of long-term debt	17,868	19,419
Total current liabilities	564,583	649,339
Long-term debt	320,959	327,755
Postretirement benefits other than pensions	238,653	239,337
Pension benefits	291,808	285,466
Other long-term liabilities	157,918	149,729
Deferred income tax liabilities	6,601	6,463
Redeemable noncontrolling shareholder interest	—	155,554
Equity:		
Preferred stock, \$1 par value; 5,000,000 shares authorized; none issued		
Common stock, \$1 par value; 300,000,000 shares authorized; 87,850,292 shares issued	87,850	87,850
Capital in excess of par value	4,433	—
Retained earnings	1,741,611	1,755,903
Cumulative other comprehensive loss	(410,020)	(406,488)
	1,423,874	1,437,265
Less: common shares in treasury at cost (24,464,264 at 2013 and 24,393,034 at 2014)	(433,008)	(431,574)
Total parent stockholders' equity	990,866	1,005,691
Noncontrolling shareholder interest in consolidated subsidiary	166,759	44,604
Total equity	1,157,625	1,050,295
Total liabilities and equity	<u>\$2,738,147</u>	<u>\$2,863,938</u>

See accompanying notes.



COOPER TIRE & RUBBER COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

(Dollar amounts in thousands except per-share amounts)

	Three months ended March 31,	
	2013	2014
Net sales	\$ 861,681	\$ 796,458
Cost of products sold	703,763	649,116
Gross profit	157,918	147,342
Selling, general and administrative	61,254	66,431
Operating profit	96,664	80,911
Interest expense	(7,101)	(7,118)
Interest income	296	513
Other income (expense)	595	(11)
Income before income taxes	90,454	74,295
Income tax expense	27,617	22,567
Net income	62,837	51,728
Net income attributable to noncontrolling shareholders' interests	6,757	6,294
Net income attributable to Cooper Tire & Rubber Company	<u>\$ 56,080</u>	<u>\$ 45,434</u>
Basic earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	<u>\$ 0.89</u>	<u>\$ 0.72</u>
Diluted earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	<u>\$ 0.87</u>	<u>\$ 0.71</u>
Dividends per share	<u>\$ 0.105</u>	<u>\$ 0.105</u>

See accompanying notes.

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

	Three Months Ended March 31,	
	2013	2014
Net income	\$ 62,837	\$ 51,728
Other comprehensive income		
Cumulative currency translation adjustments		
Foreign currency translation adjustments	(6,179)	(3,937)
Cumulative currency translation adjustments	(6,179)	(3,937)
Financial instruments		
Change in the fair value of derivatives and marketable securities	2,527	1,542
Income tax benefit on derivative instruments	(1,139)	(613)
Financial instruments, net of tax	1,388	929
Postretirement benefit plans		
Amortization of actuarial loss	12,479	9,127
Amortization of prior service credit	(142)	(142)
Income tax provision on postretirement benefit plans	(4,589)	(3,113)
Foreign currency translation effect	6,175	(512)
Postretirement benefit plans, net of tax	13,923	5,360
Other comprehensive income	9,132	2,352
Comprehensive income	71,969	54,080
Less comprehensive income attributable to noncontrolling shareholders' interests	8,560	5,114
Comprehensive income attributable to Cooper Tire & Rubber Company	\$ 63,409	\$ 48,966

See accompanying notes.

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

	Three Months ended March 31,	
	2013	2014
<b>Operating activities:</b>		
Net income	\$ 62,837	\$ 51,728
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	32,121	34,885
Deferred income taxes	787	1,584
Stock based compensation	1,818	1,436
Change in LIFO inventory reserve	(12,978)	(31,579)
Amortization of unrecognized postretirement benefits	12,337	8,985
Changes in operating assets and liabilities:		
Accounts and notes receivable	(55,784)	(96,004)
Inventories	(85,244)	(74,266)
Other current assets	(1,374)	(5,850)
Accounts payable	(24,550)	57,921
Accrued liabilities	18,615	16,059
Other items	17,384	7,549
Net cash used in operating activities	(34,031)	(27,552)
<b>Investing activities:</b>		
Additions to property, plant and equipment and capitalized software	(49,347)	(39,772)
Proceeds from the sale of assets	—	100
Net cash used in investing activities	(49,347)	(39,672)
<b>Financing activities:</b>		
Net issuances of short-term debt	2,360	3,622
Additions to long-term debt	12,973	13,034
Repayments of long-term debt	(451)	(4,687)
Payment of dividends	(6,645)	(6,656)
Issuance of common shares and excess tax benefits on options	1,070	131
Net cash provided by financing activities	9,307	5,444
Effects of exchange rate changes on cash	(5,574)	(7)
Changes in cash and cash equivalents	(79,645)	(61,787)
Cash and cash equivalents at beginning of year	351,817	397,731
Cash and cash equivalents at end of period	<u>\$ 272,172</u>	<u>\$ 335,944</u>

See accompanying notes.



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

**1. Basis of Presentation and Consolidation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. There is a year-round demand for the Company's passenger and truck replacement tires, but sales of light vehicle replacement tires are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of June through November. Operating results for the three-month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014.

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

*Accounting Pronouncements – Recently Adopted*

**Income Taxes**—In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which clarifies treatment of unrecognized tax benefits based on surrounding circumstances. The amendments in this update are effective for annual and interim periods beginning on or after December 15, 2013. Although the Company does not expect the adoption of ASU 2013-11 to have a material effect on its consolidated financial statements, it will modify presentation of its unrecognized tax benefit if the specific circumstances are met. The adoption of this accounting standards update did not have an impact on the Company's consolidated financial statements.

**2. CCT Agreement**

On January 29, 2014, the Company entered into an agreement (the "CCT Agreement") with Chengshan Group Company Ltd. ("Chengshan") and The Union of Cooper Chengshan (Shandong) Tire Company Co., Ltd. (the "Union") regarding Cooper Chengshan (Shandong) Tire Company Ltd. ("CCT") that, among other matters, provides Chengshan, with certain conditions and exceptions, a limited contractual right to either (i) purchase the Company's 65 percent equity interest in CCT for 65 percent of the Option Price (as defined below) or (ii) sell its 35 percent equity interest in CCT to the Company for 35 percent of the Option Price. In the event Chengshan elects not to exercise its right to purchase the Company's equity interest or sell its interest in CCT to the Company, the Company has the right to purchase Chengshan's 35 percent equity interest in CCT for 35 percent of the Option Price subject to certain conditions. In the event neither Chengshan nor the Company exercises their respective options prior to their expiration, the agreement allows for continuation of the joint venture as currently structured.

The “Option Price” under the CCT Agreement is defined as the greater of (i) the fair market value of CCT on a stand-alone basis, which value will not take into consideration the value of the trademarks and technologies licensed by the Company to CCT, as determined by an internationally recognized valuation firm (the “CCT valuation”) and (ii) \$435,000.

Under the terms of the CCT Agreement, once the Option Price is determined, the noncontrolling shareholder has 45 days to either purchase the Company’s 65 percent ownership interest in CCT for 65 percent of the Option Price or sell to the Company its 35 percent ownership interest in CCT at 35 percent of the Option Price or do neither. If the noncontrolling shareholder does not exercise these options, the options shall expire and the Company shall have the right to purchase the noncontrolling shareholder’s 35 percent ownership interest in CCT at 35 percent of the Option Price. If the Company does not exercise this option within 90 days of the determination of the Option Price, the option shall lapse. If the CCT valuation is not provided on or before August 11, 2014, the above options of both parties will terminate and be of no effect unless the Company, at its sole discretion, elects to extend this deadline for the CCT valuation.

The CCT Agreement is separate and in addition to the purchase, sale, transfer, right of first refusal and other protective rights set forth in the existing joint venture agreement between the Company and Chengshan with respect to CCT, which continues to be in effect and fully operational.

The Company has determined the CCT Agreement constitutes an accounting extinguishment of the Chengshan Group’s equity interest in CCT. In accordance with Accounting Standard Codification (“ASC”) 810, “Consolidation”, changes in a parent’s interest while the parent retains its controlling financial interest in its subsidiary shall be accounted for as equity transactions. Therefore, gains and losses are not recorded in the Condensed Consolidated Statement of Income as a result of the CCT Agreement. The Company is required to measure the noncontrolling shareholder interest at fair value as of January 29, 2014, the transaction date (the “Transaction Date Assessment”).

The measurement of the noncontrolling shareholder interest as of the transaction date is determined by assessing CCT as an ongoing component of the Company’s operations. The Transaction Date Assessment is not meant to be representative of the fair market value of CCT as a stand-alone entity as defined by the CCT Agreement. Further, the Transaction Date Assessment also considers specific discounts attributable to a noncontrolling shareholder interest, including discounts for lack of control of the entity and lack of marketability. Any adjustment to the noncontrolling shareholder interest as a result of the Transaction Date Assessment is offset by a reduction to Capital in excess of par value, to the extent available, with any remaining amount treated as a reduction in Retained earnings.

In addition, because the CCT Agreement provides put and call options to the noncontrolling shareholder interest owner, these options should be measured at fair value (the “Options Assessment”). Adjustments to the carrying value of the noncontrolling shareholder interest as a result of the Options Assessment will be treated like a dividend to the noncontrolling shareholder interest owner. Any adjustment to the noncontrolling shareholder interest as a result of the Options Assessment is offset by a reduction to Retained earnings and reflected in the computation of earnings per share available to the Company’s common stockholders.

Further, as a result of the CCT Agreement, during the term of its put option rights, the noncontrolling shareholder interest in CCT has redemption features that are not within the control of the Company. Accordingly, the noncontrolling shareholder interest in CCT is recorded outside of total equity. If the Transaction Date Assessment and Options Assessment result in a noncontrolling shareholder interest that is less than 35 percent of the minimum Option Price, ASC 480, “Distinguishing Liabilities from Equity”, requires that the noncontrolling shareholder interest be adjusted to 35 percent of the minimum Option Price.

The Company’s Transaction Date Assessment, in accordance with the appropriate accounting guidance, resulted in an adjustment to the noncontrolling shareholder interest of \$28,285, increasing the total noncontrolling shareholder interest to \$152,250. The Options Assessment did not result in any further

adjustment to the noncontrolling shareholder interest. The redeemable noncontrolling shareholder interest is classified outside of permanent equity on the Company's Condensed Consolidated Balance Sheets, in accordance with the authoritative accounting guidance.

The Company has determined that the nonrecurring fair value measurements related to CCT rely primarily on Company-specific inputs and the Company's assumptions about the use of the assets and settlements of liabilities, as observable inputs are not available and, as such, reside within Level 3 of the fair value hierarchy as defined in Footnote 4. The Company utilized a third party to assist in the determination of the Transaction Date Assessment and Options Assessment and these were determined based upon internal and external inputs considering various relevant market transactions, discounted cash flow valuation methods, assessing appropriate discounts for lack of control and marketability, and probability weighting, among other factors.

### 3. Earnings Per Share

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

	Three months ended March 31,	
	2013	2014
<b>Numerator</b>		
Numerator for basic and diluted earnings per share - Net income attributable to common stockholders	\$ 56,080	\$ 45,434
<b>Denominator</b>		
Denominator for basic earnings per share - weighted average shares outstanding	63,226	63,399
Effect of dilutive securities - stock options and other stock units	958	939
Denominator for diluted earnings per share - adjusted weighted average share outstanding	64,184	64,338
<b>Basic earnings per share:</b>		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.89	\$ 0.72
<b>Diluted earnings per share:</b>		
Net income attributable to Cooper Tire & Rubber Company common stockholders	\$ 0.87	\$ 0.71

Options to purchase shares of the Company's common stock not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares were none and 340,841 in 2013 and 2014, respectively. These options could be dilutive in the future depending on the performance of the Company's stock.

The Company is a party to a trust agreement which is intended to provide funding for benefits payable and other potential payments to directors, executive officers and certain other employees under various plans and agreements of the Company. The execution of the merger agreement with subsidiaries of Apollo Tyres Ltd. in 2013 constituted a "potential change in control" under such plans and agreements and as a result, the Company was required to fund the estimated value of the payments to be made to the beneficiaries under the trust agreement. The Company deposited 1,906,183 of common shares with the trustee in connection with this funding during the third quarter of 2013. While these shares were in the trust, they were treated as treasury shares in prior financial statements and in accordance with Accounting Standards Codification 260, "Earnings Per Share," were not included in the earnings per share calculations. With the termination of the merger agreement, these shares have been removed from the trust and returned to treasury shares during the first quarter of 2014.

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#### 4. Fair Value of Financial Instruments

Derivative financial instruments are utilized by the Company to reduce foreign currency exchange risks. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes. The derivative financial instruments include fair value and cash flow hedges of foreign currency exposures. The change in values of the fair value foreign currency hedges offset exchange rate fluctuations on the foreign currency-denominated intercompany loans and obligations. The Company presently hedges exposures in the Euro, Canadian dollar, British pound sterling, Swiss franc, Swedish krona, Norwegian krone, Mexican peso and Chinese yuan generally for transactions expected to occur within the next 12 months. The notional amount of these foreign currency derivative instruments at December 31, 2013 and March 31, 2014 was \$148,036 and \$143,758, respectively. The counterparties to each of these agreements are major commercial banks.

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

Foreign currency forward contracts are also used to hedge variable cash flows associated with forecasted sales and purchases denominated in currencies that are not the functional currency of certain entities. The forward contracts have maturities of less than twelve months pursuant to the Company's policies and hedging practices. These forward contracts meet the criteria for and have been designated as cash flow hedges. Accordingly, the effective portion of the change in fair value of such forward contracts (approximately \$398 and \$1,940 as of December 31, 2013 and March 31, 2014, respectively) are recorded as a separate component of stockholders' equity in the accompanying Condensed Consolidated Balance Sheets and reclassified into earnings as the hedged transactions occur.

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

The Company enters into various derivative contracts with financial institutions under master netting arrangements which include a right to offset. The following table presents the fair value of the gross position of the derivative contracts, the amount offset under the master netting arrangements and the net amounts and the location of those amounts in the Condensed Consolidated Balance Sheets.

(Assets)/liabilities	December 31, 2013		March 31, 2014	
<b>Designated as hedging instruments:</b>				
Gross amounts recognized		\$ 2,702		\$ 3,721
Gross amounts offset		(2,232)		(1,636)
Net amounts		\$ 470		\$ 2,085
<b>Not designated as hedging instruments:</b>				
Gross amounts recognized		\$ (121)		\$ (253)
Gross amounts offset		—		—
Net amounts		\$ (121)		\$ (253)
Net amounts presented	Other current assets	\$ 349	Other current assets	\$ 1,832

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	Amount of Gain (Loss)	Amount of Gain (Loss)	Amount of Gain (Loss)
	Recognized in Other Comprehensive Income on Derivatives (Effective Portion)	Reclassified from Cumulative Other Comprehensive Loss into Income (Effective Portion)	Recognized in Income on Derivatives (Ineffective Portion)
Three Months Ended March 31, 2013	\$ 2,032	\$ (495)	\$ 56
<b>Three Months Ended March 31, 2014</b>	<b>\$ 2,441</b>	<b>\$ 899</b>	<b>\$ 72</b>

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31,	
		2013	2014
Foreign exchange contracts	Other income	\$ (503)	\$ (132)

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:

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

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

The valuation of foreign exchange forward contracts was determined using widely accepted valuation techniques. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs, including forward points. The Company incorporated credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Although the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as current credit ratings, to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2013 and March 31, 2014, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety were classified in Level 2 of the fair value hierarchy.

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

	December 31, 2013			
	Total Derivative Assets (Liabilities)	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Foreign Exchange Contracts	\$ 349	\$ —	\$ 349	\$ —
Stock-based Liabilities	\$ (12,462)	\$ (12,462)	\$ —	\$ —

  

	March 31, 2014			
	Total Derivative Assets (Liabilities)	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Foreign Exchange Contracts	\$ 1,832	\$ —	\$ 1,832	\$ —
Stock-based Liabilities	\$ (12,701)	\$ (12,701)	\$ —	\$ —
Redeemable noncontrolling shareholder interest (see Footnote 2 - CCT Agreement)	\$(152,250)	\$ —	\$ —	\$ (152,250)

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

	December 31, 2013			
	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Instruments Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Cash and cash equivalents	\$ 397,731	\$ 397,731	\$ —	\$ —
Notes receivable	86,965	86,965	—	—
Restricted cash	2,759	2,759	—	—
Notes payable	(22,105)	(22,105)	—	—
Current portion of long-term debt	(17,868)	(17,868)	—	—
Long-term debt	(320,959)	(334,759)	—	—

	March 31, 2014			
	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Instruments Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Cash and cash equivalents	\$ 335,944	\$ 335,944	\$ —	\$ —
Notes receivable	78,628	78,628	—	—
Restricted cash	1,169	1,169	—	—
Notes payable	(25,001)	(25,001)	—	—
Current portion of long-term debt	(19,419)	(19,419)	—	—
Long-term debt	(327,755)	(334,855)	—	—



## 5. Business Segments

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

	Three months ended March 31,	
	2013	2014
<b>Revenues:</b>		
North American Tire		
External customers	\$ 586,876	\$ 543,960
Intercompany	15,398	19,534
	<u>602,274</u>	<u>563,494</u>
International Tire		
External customers	274,804	252,498
Intercompany	66,227	57,448
	<u>341,031</u>	<u>309,946</u>
Eliminations	(81,624)	(76,982)
Net sales	<u>\$ 861,681</u>	<u>\$ 796,458</u>
<b>Segment profit (loss):</b>		
North American Tire	\$ 71,406	\$ 68,629
International Tire	30,010	23,148
Eliminations	1,047	382
Unallocated corporate charges	(5,799)	(11,248)
Operating profit	96,664	80,911
Interest expense	(7,101)	(7,118)
Interest income	296	513
Other income (expense)	595	(11)
Income before income taxes	<u>\$ 90,454</u>	<u>\$ 74,295</u>

## 6. Inventories

Inventory costs are determined using the last-in, first-out ("LIFO") method for substantially all U.S. inventories. The current cost of this inventory under the first-in, first-out ("FIFO") method was \$432,906 and \$492,890 at December 31, 2013 and March 31, 2014, respectively. These FIFO values have been reduced by approximately \$161,436 and \$129,857 at December 31, 2013 and March 31, 2014, respectively, to arrive at the LIFO value reported on the Condensed Consolidated Balance Sheets. The remaining inventories have been valued under the FIFO or average cost method. All inventories are stated at the lower of cost or market.

## 7. Stock-Based Compensation

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

The following table discloses the amount of stock-based compensation expense for the three-month period ended March 31, 2013 and 2014:

	Three months ended March 31,	
	2013	2014
Stock options	\$ 971	\$ 1,014
Restricted stock units	279	156
Performance based units	568	266
Total stock based compensation	<u>\$ 1,818</u>	<u>\$ 1,436</u>

### *Stock Options*

In February 2012, executives participating in the 2012 – 2014 Long-Term Incentive Plan were granted 589,934 stock options which will vest one third each year through February 2015. In February 2013, executives participating in the 2013-2015 Long-Term Incentive Plan were granted 330,639 stock options which will vest one third each year through February 2016. In February 2014, executives participating in the 2014-2016 Long-Term Incentive Plan were granted 380,062 stock options which will vest one third each year through February 2017. The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2013	2014
Risk-free interest rate	1.17%	2.00%
Dividend yield	1.7%	1.8%
Expected volatility of the Company's common stock	0.646	0.640
Expected life in years	6.0	6.0

The weighted average fair value of options granted in 2013 and 2014 was \$12.97 and \$12.26, respectively.

The following table provides details of the stock option activity for the three months ended March 31, 2014:

	<u>Number of Shares</u>
Outstanding at January 1, 2014	1,710,244
Granted	380,064
Exercised	(6,776)
Expired	(53,000)
Cancelled	(4,015)
Outstanding at March 31, 2014	2,026,517
<i>Exercisable</i>	<u>1,233,982</u>

*Restricted Stock Units (RSUs)*

The following table provides details of the nonvested RSU activity for the three months ended March 31, 2014:

	<u>Number of Restricted Units</u>
Nonvested at January 1, 2014	60,686
Vested	(18,658)
Accrued dividend equivalents	272
Nonvested at March 31, 2014	<u>42,300</u>

*Performance Stock Units (PSUs)*

Executives participating in the Company's Long-Term Incentive Plan for the plan year 2012 – 2014, earn PSUs and cash. Any units and cash earned during 2012, 2013 and 2014 will vest at December 31, 2014.

Executives participating in the Company's Long-Term Incentive Plan for the plan year 2013 – 2015, earn PSUs and cash. Any units and cash earned during 2013 and 2014 will vest at December 31, 2015.

Executives participating in the Company's Long-Term Incentive Plan for the plan year 2014 – 2016, earn PSUs and cash. Any units and cash earned during 2014 will vest at December 31, 2016.

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

Performance stock units outstanding at January 1, 2014	156,772
Cancelled	(1,118)
Accrued dividend equivalents	723
Performance stock units outstanding at March 31, 2014	<u>156,377</u>

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

## 8. Pensions and Postretirement Benefits Other than Pensions

The following table discloses the amount of net periodic benefit costs for the three months ended March 31, 2013 and 2014 for the Company's defined benefit plans and other postretirement benefits:

	Pension Benefits - Domestic		Pension Benefits - International	
	2013	2014	2013	2014
Components of net periodic benefit cost:				
Service cost	\$ 2,970	\$ 2,440	\$ 3	\$ 3
Interest cost	9,657	10,711	3,886	4,926
Expected return on plan assets	(11,889)	(13,135)	(3,718)	(5,015)
Amortization of actuarial loss	11,086	7,005	914	2,122
Net periodic benefit cost	<u>\$ 11,824</u>	<u>\$ 7,021</u>	<u>\$ 1,085</u>	<u>\$ 2,036</u>

	Other Post Retirement Benefits	
	2013	2014
Components of net periodic benefit cost:		
Service cost	\$ 953	\$ 601
Interest cost	2,698	2,826
Amortization of prior service cost	(142)	(142)
Amortization of actuarial loss	479	—
Net periodic benefit cost	<u>\$ 3,988</u>	<u>\$ 3,285</u>

## 9. Stockholders' Equity

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

	Redeemable Noncontrolling Shareholder Interest	Total Parent Stockholders' Equity	Total Equity	
			Noncontrolling Shareholder Interest in Consolidated Subsidiary	Total Stockholders' Equity
Balance at December 31, 2013	\$ —	\$ 990,866	\$ 166,759	\$1,157,625
Reclassification of redeemable noncontrolling shareholder interest	152,250	(28,285)	(123,965)	(152,250)
Net income	4,300	45,434	1,994	47,428
Other comprehensive income	(996)	3,532	(184)	3,348
Stock compensation plans	—	800	—	800
Cash dividends - \$.105 per share	—	(6,656)	—	(6,656)
Balance at March 31, 2014	<u>\$ 155,554</u>	<u>\$1,005,691</u>	<u>\$ 44,604</u>	<u>\$1,050,295</u>

## 10. Changes in Cumulative Other Comprehensive Loss by Component

The following table presents the changes in Cumulative Other Comprehensive Loss by Component for the period ended March 31, 2014. All amounts are presented net of tax. Amounts in parentheses indicate debits.

	Cumulative Currency Translation Adjustment	Changes in the Fair Value of Derivatives and Unrealized Gains (Losses)	Unrecognized Postretirement Benefit Plans	Total
December 31, 2013	\$ 59,660	\$ 1,615	\$ (471,295)	\$(410,020)
Other comprehensive income (loss) before reclassifications	(2,757)	1,470(a)	(512)(c)	(1,799)
Amount reclassified from accumulated other comprehensive income	—	(541)(b)	5,872(d)	5,331
Net current-period other comprehensive income	(2,757)	929	5,360	3,532
March 31, 2014	<u>\$ 56,903</u>	<u>\$ 2,544</u>	<u>\$ (465,935)</u>	<u>\$(406,488)</u>

- (a) This amount represents \$2,441 of unrealized gains on cash flow hedges, net of tax of \$971, that were recognized in Other Comprehensive Loss (see Footnote 4 for additional details).
- (b) This amount represents \$899 of gains on cash flow hedges, net of tax of \$358, that were reclassified out of Cumulative Other Comprehensive Loss and are included in Other income on the Condensed Consolidated Statements of Income (see Footnote 4 for additional details).
- (c) This amount represents \$665 of other comprehensive loss, net of tax of \$153 that was recognized in Other Comprehensive Loss.
- (d) This amount represents amortization of prior service credit of \$142 and amortization of actuarial losses of (\$9,127), net of tax of \$3,113, that were reclassified out of Cumulative Other Comprehensive Loss and are included in the computation of net periodic benefit cost (see Footnote 8 for additional details).

## 11. Comprehensive Income Attributable to Noncontrolling Shareholders' Interests

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

	Three months ended March 31,	
	2013	2014
Net income attributable to noncontrolling shareholders' interests	\$ 6,757	\$ 6,294
Other comprehensive income:		
Currency translation adjustments	1,803	(1,180)
Comprehensive income attributable to noncontrolling shareholders' interests	<u>\$ 8,560</u>	<u>\$ 5,114</u>

## 12. Product Warranty Liabilities

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

	2013	2014
Reserve at January 1	\$30,139	\$30,853
Additions	5,669	5,906
Payments	(4,128)	(5,115)
Reserve at March 31	<u>\$31,680</u>	<u>\$31,644</u>

## 13. Contingent Liabilities

### *Products Liability Claims*

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

The fact that the Company is a defendant in products liability lawsuits is not surprising given the current litigation climate, which is largely confined to the United States. However, the fact that the Company is subject to claims does not indicate that there is a quality issue with the Company's tires. The Company sells approximately 30 to 35 million passenger, light truck, SUV, radial medium truck and motorcycle tires per year in North America. The Company estimates that approximately 300 million Company-produced tires – made up of thousands of different specifications – are still on the road in North America. While tire

disabilities do occur, it is the Company's and the tire industry's experience that the vast majority of tire failures relate to service-related conditions, which are entirely out of the Company's control – such as failure to maintain proper tire pressure, improper maintenance, road hazard and excessive speed.

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

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

The Company determines its reserves using the number of incidents expected during a year. During the first quarter of 2014, the Company increased its products liability reserve by \$11,927. The addition of another year of self-insured incidents accounted for \$12,331 of this increase. Settlements and changes in the amount of reserves for cases where sufficient information is known to estimate a liability decreased the reserve by \$404.

The time frame for the payment of a products liability claim is too variable to be meaningful. From the time a claim is filed to its ultimate disposition depends on the unique nature of the case, how it is resolved – claim dismissed, negotiated settlement, trial verdict and appeals process – and is highly dependent on jurisdiction, specific facts, the plaintiff's attorney, the court's docket and other factors. Given that some claims may be resolved in weeks and others may take five years or more, it is impossible to predict with any reasonable reliability the time frame over which the accrued amounts may be paid.

The Company paid \$15,554 during the first quarter of 2014 to resolve cases and claims. The Company's products liability reserve balance at December 31, 2013 totaled \$189,513 (the current portion of \$70,472 is included in Accrued liabilities and the long-term portion is included in Other long-term liabilities on the Condensed Consolidated Balance Sheets) and the balance at March 31, 2014 totaled \$185,886 (current portion of \$70,234).

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

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For the three-month periods ended March 31, 2013 and 2014, products liability expenses totaled \$20,697 and \$18,701, respectively. Products liability expenses are included in Cost of goods sold in the Condensed Consolidated Statements of Income.

### ***Certain Litigation Related to the Apollo Merger***

Following the announcement of the proposed acquisition of the Company by wholly owned subsidiaries of Apollo Tyres Ltd. (the “Apollo entities”) in June 2013, alleged stockholders of the Company filed putative class action lawsuits in state courts in Delaware and Ohio. These lawsuits, captioned *In re Cooper Tire & Rubber Co. Stockholders Litigation*, No. 9658 VCL and *Auld v. Cooper Tire & Rubber Co., et al.*, No. 2013 CV 293, alleged that the directors of the Company breached their fiduciary duties to the Company’s stockholders by agreeing to enter into the proposed transaction for an allegedly unfair price and as the result of an allegedly unfair process. The lawsuits sought, among other things, declaratory and injunctive relief. As discussed below, on December 30, 2013, the Company terminated the merger agreement with the Apollo entities. Following the termination of the merger agreement, the plaintiffs voluntarily dismissed the Delaware and Ohio lawsuits in April 2014.

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

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

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, 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.

An estimate of any such loss cannot be made at this time, as no claims for damages against the Company have been asserted and the outcome of these pending proceedings cannot be predicted with certainty. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company’s liquidity, financial condition or results of operations.

### ***Federal Securities Litigation***

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



The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, 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.

This case has recently been filed and is at an early stage. As a result, the outcome of these pending proceedings cannot be predicted with certainty and an estimate of any such loss cannot be made at this time. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations.

### ***Stockholder Derivative Litigation***

On February 24, March 6, and April 17, 2014, purported stockholders of the Company filed derivative actions on behalf of the Company in the U.S. District Court for the Northern District of Ohio and the U.S. District Court for the District of Delaware against certain current officers and employees and the current members of the Company's board of directors. The Company is named as a nominal defendant in the lawsuits, and the lawsuits seek recovery for the benefit of the Company. The lawsuits, captioned *Bui v. Armes, et al.*, No. 3:14-cv-00428 (N.D. Ohio), *Zwang v. Armes, et al.*, No. 3:14-cv-00511 (N.D. Ohio), and *Fitzgerald v. Armes, et al.*, No. 1:14-cv-479 (D. Del.), allege that the defendants breached their fiduciary duties to the Company by issuing allegedly misleading disclosures in connection with the terminated merger transaction. The *Zwang* and *Fitzgerald* lawsuits also allege that the defendants violated Section 14(a) of the Securities Exchange Act of 1934 by means of the same allegedly misleading disclosures. The complaints also variously assert claims for waste of corporate assets, unjust enrichment, "gross mismanagement" and "abuse of control." The complaints seek, among other things, unspecified money damages from the defendants, injunctive relief and an award of attorney's fees.

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, 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.

These cases have recently been filed and are at an early stage and they do not assert claims for damages against the Company. The outcome of these pending proceedings cannot be predicted with certainty and an estimate of any loss cannot be made at this time. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations.

### ***Other Litigation***

In addition to the proceedings described above, the Company is involved in various other legal proceedings arising in the ordinary course of business. The Company regularly reviews the probable outcome of these proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for these proceedings at the time a loss is probable and the amount of the loss can be estimated. Although the outcome of these pending proceedings cannot be predicted with certainty and an estimate of any such loss cannot be made, the Company believes that any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations.

## **14. Income Taxes**

For the quarter ended March 31, 2014, the Company recorded income tax expense of \$22,567 (effective rate of 30.4 percent) as compared to \$27,617 (effective rate of 30.3 percent) for the comparable period in 2013. The 2014 three-month period income tax expense is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. This rate differs from the U.S. federal statutory rate of 35 percent primarily because of the projected mix of earnings in international jurisdictions with lower tax rates. Income tax expense for the quarter is lower due to decreased pretax earnings primarily in the U.S.

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The Company continues to maintain a valuation allowance pursuant to ASC 740, "Accounting for Income Taxes," against a portion of its U.S. and non-U.S. deferred tax asset position at March 31, 2014, as it cannot assure the utilization of these assets before they expire. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a capital loss carryforward by a valuation allowance of \$22,072. In addition, the Company has recorded valuation allowances of \$10,205 relating to non-U.S. net operating losses for a total valuation allowance of \$32,277. In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when they are deemed to be realizable.

The Company maintains an ASC 740-10, "Accounting for Uncertainty in Income Taxes," liability for unrecognized tax benefits for permanent and temporary book/tax differences. At March 31, 2014, the Company's liability, exclusive of interest, totals approximately \$5,878. The Company accrued an immaterial amount of interest expense related to these unrecognized tax benefits during the quarter.

The Company and its subsidiaries are subject to income tax examination in the U.S. federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and foreign tax examinations by income and franchise tax authorities for years prior to 2007.

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

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

**Consolidated Results of Operations**

(Dollar amounts in millions except per share amounts)

	Three months ended March 31,		
	2013	Change	2014
<b>Revenues:</b>			
North American Tire			
External customers	\$587.3	-7.4%	\$544.0
Intercompany	15.0	30.0%	19.5
	<u>602.3</u>	-6.4%	<u>563.5</u>
International Tire			
External customers	274.9	-8.1%	252.5
Intercompany	66.1	-13.2%	57.4
	<u>341.0</u>	-9.1%	<u>309.9</u>
Eliminations	(81.6)	-5.6%	(77.0)
Net sales	<u>\$861.7</u>	-7.6%	<u>\$796.4</u>
<b>Segment profit (loss):</b>			
North American Tire	71.4	-3.9%	68.6
International Tire	30.0	-23.0%	23.1
Unallocated corporate charges	(5.8)	93.1%	(11.2)
Eliminations	1.1	-63.6%	0.4
Operating profit	96.7	-16.3%	80.9
Interest expense	(7.1)	0.0%	(7.1)
Interest income	0.3	66.7%	0.5
Other income	0.6	-100.0%	—
Income before income taxes	90.5	-17.9%	74.3
Income tax expense	27.6	-18.1%	22.6
Net income	62.9	-17.8%	51.7
Noncontrolling shareholders' interests	6.8	-7.4%	6.3
Net income attributable to Cooper Tire & Rubber Company	<u>56.1</u>	-19.1%	<u>45.4</u>
Basic earnings per share attributable to Cooper Tire & Rubber Company	<u>\$ 0.89</u>		<u>\$ 0.72</u>
Diluted earnings per share attributable to Cooper Tire & Rubber Company	<u>\$ 0.87</u>		<u>\$ 0.71</u>

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Consolidated net sales for the three-month period ended March 31, 2014 were \$796 million, a decrease of \$65 million from the comparable period one year ago. The decrease in net sales was the result of less favorable pricing and mix (\$87 million), partially offset by an increase in unit volumes (\$11 million) and favorable exchange rates in the International segment (\$11 million) in the quarter.

The Company recorded operating profit in the first quarter of 2013 of \$81 million, a decrease of \$16 million compared with the first quarter of 2013. Unfavorable pricing and mix (\$96 million) was partially offset by lower raw material costs (\$67 million), favorable manufacturing cost efficiencies (\$11 million), higher unit volumes (\$8 million) and lower products liability charges (\$2 million). Selling, general and administrative costs (\$5 million) increased compared with the first quarter of 2013. Other operating costs, including increased distribution costs associated with carrying higher finished goods inventories, were unfavorable (\$3 million).

The Company experienced decreases in the costs of certain of its principal raw materials in the first quarter of 2014 compared with the first quarter of 2013. The principal raw materials for the Company include natural rubber, synthetic rubber, carbon black, chemicals and steel reinforcement components. Approximately 65 percent of the Company's raw materials are petroleum-based. Substantially all U.S. inventories have been valued using the LIFO method of inventory costing which accelerates the impact to cost of goods sold from changes to raw material prices.

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

Products liability expenses totaled \$19 million and \$21 million in the first quarter of 2014 and 2013, respectively. The change in the expense results from claim settlements and adjustments to existing reserves based on the Company's quarterly comprehensive review of outstanding claims. Additional information related to the Company's accounting for products liability costs appears in the Notes to the Condensed Consolidated Financial Statements.

Selling, general and administrative expenses were \$66 million in the first quarter of 2014 (8.3 percent of net sales) and \$61 million in the first quarter of 2013 (7.1 percent of net sales). The increase in selling, general and administrative expenses was driven by increased professional fees, including costs in support of the implementation of the Company's new ERP system. Lower net revenue also contributed to the increase in selling, general and administrative expenses as a percent of sales.

Interest expense, interest income and other income remained consistent with the first quarter of 2013.

For the quarter ended March 31, 2014, the Company recorded income tax expense of \$23 million (effective rate of 30.4 percent) as compared to \$28 million (effective rate of 30.3 percent) for the comparable period in 2013. The 2014 three-month period income tax expense is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. This is impacted by the projected mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances. Income tax expense for the quarter is lower due to decreased pretax earnings, mostly in the U.S.

The Company continues to maintain a valuation allowance pursuant to ASC 740, "Accounting for Income Taxes," against a portion of its U.S. and non-U.S. deferred tax asset position, as it cannot assure the utilization of these assets before they expire. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a capital loss carryforward by a valuation allowance of \$22 million. In addition, the Company has recorded valuation allowances of \$10 million relating to non-U.S. net operating losses for a total valuation allowance of \$32 million. In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when they are deemed to be realizable.

## North American Tire Operations Segment

	Three months ended March 31,		
	2013	Change	2014
(Dollar amounts in millions)			
Sales	\$602.3	-6.4%	\$563.5
Operating profit	\$ 71.4	-3.9%	\$ 68.6
Operating margin	11.9%	.3 points	12.2%
United States unit shipments changes:			
Passenger tires			
Segment		3.8%	
RMA members		0.3%	
Total Industry		4.1%	
Light truck tires			
Segment		20.2%	
RMA members		4.6%	
Total Industry		7.7%	
Total light vehicle tires			
Segment		6.8%	
RMA members		0.8%	
Total Industry		4.6%	
Total segment unit sales change		5.2%	

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

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## Overview

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

## Sales

Net sales of the North American Tire Operations segment decreased \$39 million, or 6.4 percent from the first quarter of 2013. The decrease in sales was a result of unfavorable pricing and mix (\$70 million), partially offset by increased unit volumes (\$31 million). Unit shipments for the segment increased 5.2 percent compared with the first quarter of 2013. In the U.S., the segment’s unit shipments of total light vehicle tires increased 6.8 percent in 2014 compared with 2013. This increase compares with a 0.8 percent increase in total light vehicle tire shipments experienced by the members of the Rubber Manufacturers Association (“RMA”), and a 4.6 percent increase in total light vehicle tire shipments experienced for the total industry (which includes an estimate for non-RMA members). In the first quarter of 2013, North American volumes were negatively impacted by the Company’s ERP system conversion and inventory adjustments made by certain key customers.

## Operating Profit

Operating profit for the segment decreased \$3 million to \$69 million in the first quarter of 2014. Unfavorable pricing and mix (\$70 million) was offset by lower raw material costs (\$50 million), higher unit volumes (\$10 million), favorable manufacturing cost efficiencies (\$10 million) and lower products liability charges (\$2 million). Selling, general and administrative costs (\$1 million) were higher in the first quarter of 2014. Other operating costs, including increased distribution costs, were unfavorable (\$4 million) compared with the same period in 2013.

The segment’s internally calculated raw material index of 200 during the quarter was a decrease of 10.9 percent from the first quarter of 2013.

## International Tire Operations Segment

(Dollar amounts in millions)	Three months ended March 31,		
	2013	Change	2014
Sales	\$341.0	-9.1%	\$309.9
Operating profit	\$ 30.0	-23.0%	\$ 23.1
Operating margin	8.8%	(1.3) points	7.5%
Unit sales change		-2.1%	

### Overview

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

### Sales

Net sales of the International Tire Operations segment decreased \$31 million, or 9.1 percent, from the first quarter of 2013. The decrease in sales was a result of unfavorable price and mix (\$35 million) and lower unit volumes (\$7 million), partially offset by favorable exchange rates (\$11 million) in the quarter. The decline in sales volume was driven by reduced passenger car tire and medium truck shipments, including intercompany shipments, reflecting primarily the lingering effects from the labor disruptions at CCT.

### Operating Profit

Operating profit for the segment decreased \$7 million to \$23 million in the first quarter of 2014. Unfavorable pricing and mix (\$30 million) and lower unit volumes (\$2 million) were partially offset by lower raw material costs (\$22 million) and favorable manufacturing efficiencies (\$2 million). Selling, general and administrative costs (\$1 million) decreased compared to the first quarter of 2013.

### Outlook for Company

The Company is viewing 2014 with cautious optimism as the year looks to be another period of highly competitive markets and varying economic conditions. Demand for tires will vary by region.

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

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

The Company expects raw material prices to remain volatile. Second quarter 2014 raw material prices are expected to be about flat sequentially compared to the first quarter. On a longer term basis the Company expects raw material prices to generally increase, with periods of volatility. The industry has demonstrated an ability to price to help offset raw material cost volatility, but these price changes typically lag the raw material price changes.

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

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

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

### **Liquidity and Capital Resources**

*Generation and uses of cash* – Operating activities used \$28 million of cash during the first quarter of 2014 compared to \$34 million during the first quarter of 2013. The increase in accounts receivable balances is the result of the Company beginning the 2014 year with lower accounts receivable balances due to reduced fourth quarter sales levels. Accounts payable balances increased during the first quarter of 2014 as Company raw material purchases have increased.

Net cash used in investing activities during the first quarters of 2013 and 2014 reflect capital expenditures of \$49 million and \$40 million, respectively.

In both 2013 and 2014, the Company's subsidiaries borrowed additional funds using long-term debt and in 2014, these subsidiaries repaid \$5 million of maturing long-term debt.

Dividends paid on the Company's common shares in the first quarters of 2013 and 2014 were \$7 million.

*Available cash, credit facilities and contractual commitments* – At March 31, 2014, the Company had cash and cash equivalents of \$336 million.

Domestically, the Company has a revolving credit facility with a consortium of four banks that provides up to \$200 million based on available collateral and expires in July 2016. The Company also has an accounts receivable securitization facility with a \$175 million limit with a June 2015 maturity. These credit facilities remain undrawn, other than to secure letters of credit, and have no significant financial covenants until available credit is less than specified amounts. The Company's additional borrowing capacity based on eligible collateral through use of its credit facility with its bank group and its accounts receivable securitization facility at March 31, 2014 was \$266 million.

The Company's affiliated operations in Asia have annual renewable unsecured credit lines that provide up to \$427 million of borrowings and do not contain financial covenants. The additional borrowing capacity on the Asian credit lines totaled \$368 million.

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 partially-owned subsidiaries, and dividend goals. The Company also believes it has access to additional funds from capital markets to fund potential strategic initiatives. The entire amount of short-term notes payable outstanding at March 31, 2014 is primarily debt of consolidated subsidiaries. The Company expects its subsidiaries to refinance or pay these amounts during 2014.



The Company expects capital expenditures for 2014 to be in the \$165 to \$175 million.

The following table summarizes long-term debt at March 31, 2014:

Parent company	
8% unsecured notes due December 2019	\$173.6
7.625% unsecured notes due March 2027	116.9
Capitalized leases and other	8.1
	<u>298.6</u>
Subsidiaries	
4.269% to 6.15% unsecured notes due in 2014	12.2
4.274% to 4.702% unsecured notes due in 2015	8.5
4.00% to 6.15% unsecured notes due in 2016	10.8
4.40% to 6.15% unsecured notes due in 2017	13.0
4.76% and 6.37% secured notes due in 2016	4.1
	<u>48.6</u>
Total long-term debt	347.2
Less current maturities	19.4
	<u>\$327.8</u>

### Contingencies

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

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

In addition to the product liability cases described above, the Company is involved in various other legal proceedings arising in the ordinary course of business. The Company regularly reviews the probable outcome of these proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for these proceedings at the time a loss is probable and the amount of the loss can be estimated. Although the outcome of these pending proceedings cannot be predicted with certainty and an estimate of any such loss cannot be made, the Company believes that any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations. Additional information regarding the Company's legal proceedings is included in Item 1 of Part II of this Form 10-Q titled, "Legal Proceedings."

### **Forward-Looking Statements**

This report contains what the Company believes are "forward-looking statements," as that term is defined under the Private Securities Litigation Reform Act of 1995, regarding projections, expectations or matters that the Company anticipates may happen with respect to the future performance of the industries in which the Company operates, the economies of the United States and other countries, or the performance of the Company itself, which involve uncertainty and risk.

Such "forward-looking statements" are generally, though not always, preceded by words such as "anticipates," "expects," "will," "should," "believes," "projects," "intends," "plans," "estimates," and similar terms that connote a view to the future and are not merely recitations of historical fact. Such statements are made solely on the basis of the Company's current views and perceptions of future events, and there can be no assurance that such statements will prove to be true.

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

- volatility in raw material and energy prices, including those of rubber, steel, petroleum based products and natural gas and the unavailability of such raw materials or energy sources;
- the failure of the Company's suppliers to timely deliver products in accordance with contract specifications;
- changes in economic and business conditions in the world;
- failure to implement information technologies or related systems, including failure by the Company to successfully implement an ERP system;
- 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 relationships, including loss of particular business for competitive or other reasons;
- the ultimate outcome of litigation brought against the Company, including stockholders lawsuits relating to the Apollo merger as well as products liability claims, in each case which could result in commitment of significant resources and time to defend and possible material damages against the Company or other unfavorable outcomes;
- changes to tariffs or the imposition of new tariffs or trade restrictions;
- changes in pension expense and/or funding resulting from investment performance of the Company's pension plan assets and changes in discount rate, salary increase rate, and expected return on plan assets assumptions, or changes to related accounting regulations;
- government regulatory and legislative initiatives including environmental and healthcare matters;
- volatility in the capital and financial markets or changes to the credit markets and/or access to those markets;
- changes in interest or foreign exchange rates;
- an adverse change in the Company's credit ratings, which could increase borrowing costs and/or hamper access to the credit markets;
- the risks associated with doing business outside of the United States;
- the failure to develop technologies, processes or products needed to support consumer demand;
- technology advancements;
- the inability to recover the costs to develop and test new products or processes;
- the impact of labor problems, including labor disruptions at the Company, its joint ventures, including CCT, or at one or more of its large customers or suppliers;

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- failure to attract or retain key personnel;
  - consolidation 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;
  - failure to successfully integrate acquisitions into operations or their related financings may impact liquidity and capital resources;
  - the ability to sustain operations at CCT, including obtaining financial and other operational data of CCT;
  - changes in the Company's relationship with its joint-venture partners, or changes in the ownership structure of its joint ventures, including changes resulting from the previously announced agreement between the Company and the CCT joint-venture partner;
  - the inability to obtain and maintain price increases to offset higher production or material costs;
  - inability to adequately protect the Company's intellectual property rights;
  - inability to use deferred tax assets; and
  - the ultimate outcome of legal actions brought by the Company against wholly-owned subsidiaries of Apollo Tyres Ltd.

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 periodic filings with the U. S. Securities and Exchange Commission.

#### **Item 4. CONTROLS AND PROCEDURES**

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

The Company, under the supervision and with the participation of management, including the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as of March 31, 2014 ("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, 2014 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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## **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 products liability cases in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. After reviewing all of these proceedings, and taking into account all relevant factors concerning them, the Company does not believe that any liabilities resulting from these proceedings are reasonably likely to have a material adverse effect on its liquidity, financial condition or results of operations in excess of amounts recorded at March 31, 2014. In the future, such costs could have a materially greater impact on the consolidated results of operations and financial position of the Company than in the past.

#### ***Certain Litigation Related to the Apollo Merger***

Following the announcement of the proposed acquisition of the Company by wholly owned subsidiaries of Apollo Tyres Ltd. (the “Apollo entities”) in June 2013, alleged stockholders of the Company filed putative class action lawsuits in state courts in Delaware and Ohio. These lawsuits, captioned *In re Cooper Tire & Rubber Co. Stockholders Litigation*, No. 9658 VCL and *Auld v. Cooper Tire & Rubber Co., et al.*, No. 2013 CV 293, alleged that the directors of the Company breached their fiduciary duties to the Company’s stockholders by agreeing to enter into the proposed transaction for an allegedly unfair price and as the result of an allegedly unfair process. The lawsuits sought, among other things, declaratory and injunctive relief. As discussed below, on December 30, 2013, the Company terminated the merger agreement with the Apollo entities. Following the termination of the merger agreement, the plaintiffs voluntarily dismissed the Delaware and Ohio lawsuits in April 2014.

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

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

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, 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.

An estimate of any such loss cannot be made at this time, as no claims for damages against the Company have been asserted and the outcome of these pending proceedings cannot be predicted with certainty. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company’s liquidity, financial condition or results of operations.

#### ***Federal Securities Litigation***

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

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, 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.

This case has recently been filed and is at an early stage. As a result, the outcome of these pending proceedings cannot be predicted with certainty and an estimate of any such loss cannot be made at this time. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company’s liquidity, financial condition or results of operations.

#### ***Stockholder Derivative Litigation***

On February 24, March 6, and April 17, 2014, purported stockholders of the Company filed derivative actions on behalf of the Company in the U.S. District Court for the Northern District of Ohio and the U.S. District Court for the District of Delaware against certain current officers and employees and the current

members of the Company's board of directors. The Company is named as a nominal defendant in the lawsuits, and the lawsuits seek recovery for the benefit of the Company. The lawsuits, captioned *Bui v. Armes, et al.*, No. 3:14-cv-00428 (N.D. Ohio), *Zwang v. Armes, et al.*, No. 3:14-cv-00511 (N.D. Ohio), and *Fitzgerald v. Armes, et al.*, No. 1:14-cv-479 (D. Del.), allege that the defendants breached their fiduciary duties to the Company by issuing allegedly misleading disclosures in connection with the terminated merger transaction. The *Zwang* and *Fitzgerald* lawsuits also allege that the defendants violated Section 14(a) of the Securities Exchange Act of 1934 by means of the same allegedly misleading disclosures. The complaints also variously assert claims for waste of corporate assets, unjust enrichment, "gross mismanagement" and "abuse of control." The complaints seek, among other things, unspecified money damages from the defendants, injunctive relief and an award of attorney's fees.

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, 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.

These cases are recently filed and are at an early stage and they do not assert claims for damages against the Company. The outcome of these pending proceedings cannot be predicted with certainty and an estimate of any such award cannot be made at this time. The Company believes that based upon information currently available, any liabilities that may result from these proceedings are not reasonably likely to have a material adverse effect on the Company's liquidity, financial condition or results of operations.

## **Item 1A. RISK FACTORS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company’s operations expose it to 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 products liability cases in which individuals involved in motor vehicle accidents seek damages resulting from allegedly defective tires that it manufactured. Products liability claims and lawsuits, including possible class action, may result in material losses in the future and cause the Company to incur significant litigation defense costs. The Company is largely self-insured against these claims. These claims could have a negative effect on the Company’s financial position, cash flows and results of operations.

From time to time, the Company is also subject to litigation or other commercial disputes and other legal proceedings relating to its business, including purported class action lawsuits, derivative lawsuits and other litigation related to the now terminated merger agreement with the Apollo entities. 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company's ability to sell tires may be significantly impacted if it does not develop or have available technologies, processes, or products that competitors may be developing and consumers demanding. This includes but is not limited to changes in the design of and materials used to manufacture tires.

Technologies may also be developed by competitors that better distribute tires to consumers, which could affect the Company's customers.

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

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

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



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Company's employees are currently represented by unions. If the Company is unable to resolve labor disputes or if there are work stoppages or other work disruptions, the Company's business and operating results could suffer. See also related comments under "The Company is facing risks related to the impact of labor disruptions and changes in the Company's relationship with, or ownership interests in, its Cooper Chengshan (Shandong) Tire Company Ltd. joint venture."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**Item 6. EXHIBITS****(a) Exhibits**

- (10.1) Form of Participation Agreement for Performance Stock Unit and Cash Unit Awards Under the 2010 Incentive Compensation Plan\*
- (10.2) Form of Participation Agreement for Nonqualified Stock Option Awards Under the 2010 Incentive Compensation Plan\*
- (10.3) Agreement dated as of January 29, 2014 by and among Cooper Tire & Rubber Company, Cooper Tire Investment Holding (Barbados) Ltd, Chengshan Group Company Ltd. and The Union of Cooper Chengshan (Shandong) Tire Company Co., Ltd.
- (31.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (31.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32) Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (101.INS) XBRL Instance Document
- (101.SCH) XBRL Taxonomy Extension Schema Document
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase Document
- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document
- (101.LAB) XBRL Taxonomy Extension Label Linkbase Document
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document

\* Indicates management contracts or compensatory plans or arrangements.

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SIGNATURES

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

COOPER TIRE & RUBBER COMPANY

/s/ B. E. Hughes

B. E. Hughes  
Vice President, Chief  
Financial Officer and Treasurer  
(Principal Financial Officer)

/s/ R. W. Huber

R. W. Huber  
Director of External Reporting  
(Principal Accounting Officer)

May 2, 2014

(Date)

**COOPER TIRE & RUBBER COMPANY**

**20XX Performance Stock Unit and Cash Unit Award Agreement**

**WHEREAS,** (the “Participant”) is an employee of Cooper Tire & Rubber Company or a Subsidiary (the “Company”); and

**WHEREAS,** the Compensation Committee of the Board of Cooper Tire & Rubber Company (the “Committee”) approved the terms and authorized on (the “Date of Grant”) the grant of an Award of Performance Stock Units and Performance Cash Units (these two types of awards being collectively called “Performance Units”) pursuant to Sections 10 and 13 of the Cooper Tire & Rubber Company 2010 Incentive Compensation Plan (the “Plan”).

**NOW, THEREFORE,** pursuant to the Plan and subject to the terms and conditions thereof and hereinafter set forth, the Company hereby confirms to the Participant effective as of the Date of Grant, a grant of an Award of Performance Stock Units and Performance Cash Units, each representing the opportunity to earn Target Payments.

**1. Performance and Measurement Periods.** The Performance Period shall be the three-year period from January 1, 20XX through December 31, 20ZZ and shall be divided into the following “Measurement Periods” in which 1/3 of the Performance Units granted hereby may be notionally earned (as described below):

(a) The “First Measurement Period” shall be from January 1, 20XX through December 31, 20XX and of the Performance Stock Units and of the Performance Cash Units shall be allocated thereto.

(b) The “Second Measurement Period” shall be from January 1, 20YY through December 31, 20YY and of the Performance Stock Units and of the Performance Cash Units shall be allocated thereto.

(c) The “Third Measurement Period” shall be from January 1, 20ZZ through December 31, 20ZZ and of the Performance Stock Units and of the Performance Cash Units shall be allocated thereto.

**2. Performance Goals.** The right to receive payments for any of the Performance Units shall be contingent upon the achievement of specified levels of performance of as set forth in the Statement of Performance Goals attached hereto as Exhibit A. The Performance Units that the Participant will have the opportunity to earn upon the achievement of each Performance Goal shall be allocated in accordance with the weighting percentages specified in Exhibit A.

**3. Crediting of Notionally Earned Performance Units Based Upon the Level of Achievement as Set Forth in the Statement of Performance Goals.**

(a) Below Threshold. If, upon the conclusion of a Measurement Period, achievement for a particular Performance Goal falls below the threshold level, no Performance Units for the Measurement Period shall become notionally earned with respect to that Performance Goal.

(b) Threshold. If, upon the conclusion of a Measurement Period, the achievement for a particular Performance Goal equals the threshold level, 50% of the Performance Units allocated to such Performance Goal for the Measurement Period shall become notionally earned.

(c) Between Threshold and Target. If, upon the conclusion of a Measurement Period, the achievement for a particular Performance Goal exceeds the threshold level, but is less than the Target, between 50% and 100% of Performance Units allocated to such Performance Goal for the Measurement Period shall become notionally earned. (See Exhibit B.)

(d) Target. If, upon the conclusion of a Measurement Period, the achievement for a particular Performance Goal equals the Target, 100% of the Performance Units allocated to such Performance Goal for the Measurement Period shall become notionally earned.

(e) Between Target and Maximum. If, upon the conclusion of a Measurement Period, achievement for a particular Performance Goal exceeds the Target, but is less than the maximum level, between 100% and 200% of the Performance Units allocated to such Performance Goal for the Measurement Period shall become notionally earned. (See Exhibit B.)

(f) Maximum. If, upon the conclusion of a Measurement Period, achievement for a particular Performance Goal equals or exceeds the maximum level, 200% of the Performance Units allocated to such Performance Goal for the Measurement Period shall become notionally earned.

(g) Exceeds Maximum. In no event may more than the 200% of the Performance Units allocated to any Performance Goal or 200% of all the Performance Units for any Measurement Period become notionally earned.

(h) Conditions; Determination of Notionally Earned Award. Following each Measurement Period, the Committee shall determine whether and to what extent the Performance Goals have been achieved for such Measurement Period and shall determine the number of Performance Units that shall have become notionally earned hereunder. However, except as otherwise provided herein, the Participant's right to receive payment of notionally earned Performance Units shall be contingent upon the Participant remaining in continuous employment with the Company throughout the entire Performance Period.

#### **4. Performance Unit Account.**

(a) Performance Unit Account. The Company shall establish an account on the books of the Company (an "Account") for the Participant and shall notionally credit the Participant's Account with any Performance Stock Units notionally earned by the Participant.

(b) Dividend Equivalents. The Participant's Account shall be credited as of the last business day of each calendar quarter with that number of additional Performance Stock Units determined by dividing (i) the amount of cash dividends paid on the dividend date by Cooper Tire &

Rubber Company during such quarter on that number of Common Shares equivalent to the number of notionally earned Performance Stock Units credited to and held in the Participant's Account as of the dividend record date for that quarter (ii) by the Fair Market Value per Common Share on the last business day of the current calendar quarter, rounded up to the nearest whole share; however if a payment pursuant to Section 10 occurs during the current calendar quarter, no dividend equivalents shall be credited on that number of Common Shares equivalent to the number of Performance Stock Units so distributed. Such additional Performance Stock Units shall be notionally earned and shall become vested if, and at the same time as, the underlying Performance Stock Units pursuant to which they were notionally earned become vested as provided in Section 5 of this Award Agreement. No dividend equivalents shall be credited with respect to Performance Cash Units.

(c) Nature of the Company's Obligations/Participant's Rights. The Company's liability to make payments based on the amount in a Participant's Account shall be reflected in its books of account as a general, unsecured and unfunded obligation, and the rights of the Participant or his designated beneficiary to receive payments from the Company under the Plan are solely those of a general, unsecured creditor. The Company shall not be required to segregate any of its assets in respect to its obligations hereunder, and the Participant or his designated beneficiary shall not have any interest whatsoever, vested or contingent, in any properties or assets of the Company. Without limiting the generality or effect of the foregoing, the Participant shall have no voting rights with respect to the Performance Units.

(d) No Trust. Nothing contained in the Plan and no action taken pursuant to the provisions hereof shall create or be construed to create a trust of any kind, or a fiduciary relationship between (i) the Company and the Committee (or any member thereof) and (ii) the Participant, his designated beneficiary or any other person.

(e) Optional Trust. The Committee, at any time, may authorize the establishment of a trust for the benefit of the Participant, containing such other terms and conditions as the Committee shall approve, including provisions pursuant to which the assets of the trust would be subject under certain conditions to the claims of general creditors of the Company. If such a trust is established, then the value of all Performance Units notionally earned and credited to Participants' accounts may be delivered by the Company to the trust.

**5. Vesting of the Performance Units.** Except as otherwise provided herein, if the Participant remains in the employment of the Company through the end of the Performance Period, the Performance Units notionally earned and credited to the Participant's Account shall become vested as of the end of the Performance Period upon certification by the Committee; however, in the event the Participant's employment is terminated for Cause after the end of the Performance Period but prior to certification by the Committee and/or payment of Participant's Account, the Performance Units notionally earned and credited to the Participant's Account shall be forfeited.

**6. Effect of Change in Control.** In the event of a Change in Control during the employment of the Participant prior to the termination of the Performance Period, the Performance Units shall become vested as follows:

(a) If the Participant is a participant in Cooper Tire & Rubber Company's Change in Control Severance Pay Plan (the "Severance Plan"), the Performance Units shall also become vested only as provided in the Severance Plan.



(b) If the Participant is not a participant in the Severance Plan upon the occurrence of a Change in Control, the Participant shall receive: (i) any outstanding Performance Units which have been notionally earned by or allocated or awarded to the Participant for a Performance Period or Measurement Period completed prior to the date of the Change in Control but have not yet been paid (or settled in the case of Performance Stock Units), based on the achievement of Performance Goals for such completed Performance Period or Measurement Period; and (ii) any outstanding Performance Units which have not been notionally earned by or allocated or awarded to the Participant for an uncompleted Performance Period or Measurement Period, assuming achievement of Performance Goals at Target, prorated for the number of full and partial months (on a fractional basis based on the number of days in the applicable month) between the commencement date of the current uncompleted calendar year, Performance Period, or Measurement Period and ending on the date of the Change in Control. Unvested Performance Units shall be forfeited. The Performance Cash Units shall be paid to the Participant on the 5th day following the Change in Control and the Performance Stock Units shall be paid to the Participant at the same time (and in the same form) as Cooper Tire & Rubber Company pays the per-share transaction consideration to holders of its Common Shares.

**7. Effect of Death, Disability, Retirement.** If the Participant's employment with the Company terminates during the Performance Period, but before the occurrence of a Change in Control, due to (a) the Participant's death, or (b) the Participant's Disability, or (c) the Participant's Retirement, then notionally earned Performance Units for completed Measurement Periods will vest in full and a pro rata number of Performance Units for uncompleted Measurement Periods shall become vested. The pro rata portion which shall become vested is determined by multiplying the total number of Performance Units allocated to each such uncompleted Measurement Period by the number of days the Participant has been employed by the Company between the first day of the Measurement Period and the date of such termination, divided by the total number of days in each such uncompleted Measurement Period. Unvested Performance Units shall be forfeited. The payment of such Performance Units will be in accordance with Section 10 of this Award Agreement.

**8. Effect of Voluntary or Involuntary Termination.** If the Participant's employment with the Company terminates during any Performance Period, but before the occurrence of a Change in Control, due to the Participant's voluntary or involuntary termination of employment, for any reason other than death, Disability or Retirement, then all Performance Units with respect to any uncompleted Performance Period will be forfeited upon such termination of employment.

**9. Effect of Termination for Cause.** For the avoidance of doubt, if the Participant's employment with the Company terminates before the end of the Performance Period, or prior to certification by the Committee and/or payment of Participant's Account, for Cause, but before the occurrence of a Change in Control, all Performance Units will be forfeited.

**10. Form and Time of Payment of Performance Units.** Payments for any Performance Stock Units that become vested as set forth herein will be made in the form of Common Shares, and, except as otherwise provided in this Section 10 in the event of the Participant's termination of employment due to death or Disability during the Performance Period, will be made as soon as practicable after the end of the Performance Period, but in no event shall such payment occur later than two and one-half (2 1/2) months after the end of the Performance Period. Payments for any Performance Cash Units that become vested as set forth herein will be made in the form of cash, and, except as otherwise provided in this Section 10 in the event of the Participant's termination of

employment due to death or Disability during the Performance Period, will be made as soon as practicable after the end of the Performance Period, but in no event shall such payment occur later than two and one-half (2 1/2) months after the end of the Performance Period. In the event of a termination due to death or Disability pursuant to Section 7, payment of notionally earned amounts and the pro rata number of Performance Units allocated to any uncompleted Measurement Period shall be paid as soon as practicable after Committee certification of the extent to which Performance Goals have been achieved for any uncompleted Measurement Period and in the event of death, such payment shall be made to the designated beneficiary of the Participant, or if there is no designated beneficiary or such beneficiary does not survive the Participant, such payment shall be made to the estate of the Participant. The Participant shall have the right to designate a beneficiary at any time by furnishing the Company with a beneficiary designation form. The Participant may change or revoke a beneficiary designation at any time by furnishing a revised beneficiary designation form to the Company. For the avoidance of doubt, in the event of a termination of employment due to Retirement pursuant to Section 7, any payment will be made as soon as practicable after the end of the Performance Period, but in no event shall such payment occur later than two and one-half (2 1/2) months after the end of the Performance Period.

**11. Tax Withholding.** To the extent that the Company is required to withhold any federal, state, local or foreign tax in connection with the payment of earned and vested Performance Units pursuant to this Award Agreement, it shall be a condition to the receipt of any such cash and Common Shares that the Participant make arrangements satisfactory to the Company for payment of such taxes required to be withheld, which may include by (a) remitting the required amount to the Company, (b) authorizing the Company to withhold a portion of the Common Shares otherwise issuable with a value equal to such tax, however, in no event shall the Company accept Common Shares for payment of taxes in excess of the minimum amount of taxes required to be withheld, (c) authorize the deduction of such amounts from the Participant's other payments from the Company, or (d) otherwise satisfy the applicable tax withholding requirement in a manner satisfactory to the Company.

**12. Compliance with Law.** Notwithstanding any other provision of this Award Agreement, if the issuance of any Performance Stock Units or Common Shares in settlement thereof would result in a violation of any law, including, without limitation, any and all exchange controls, procedures and regulations, in any relevant jurisdiction, the Company shall not be obligated to issue any Performance Stock Units or Common Shares in settlement thereof, but may instead, to the extent permitted by applicable law, pay cash with a value equal to the Fair Market Value of a Common Share on the date of certification of the Performance Stock Units.

**13. Transferability.** The Participant's right to receive the Performance Units shall not be transferable by the Participant except by will or the laws of descent and distribution.

**14. No Right to Continuation of Employment.** Neither this Award Agreement nor any action taken hereunder shall be construed as giving the Participant any right to continued employment with the Company and neither this Award Agreement nor any action taken hereunder shall be construed as entitling the Company to the services of the Participant for any period of time. For purposes of this Award Agreement, the continuous employment of the Participant with the Company shall not be deemed interrupted, and the Participant shall not be deemed to have ceased to be employed by the Company, by reason of (a) the transfer of his employment among the Companies or

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(b) a leave of absence approved by the Committee in its sole discretion. This Performance Unit Award is a voluntary, discretionary Award being made on a one-time basis and it does not constitute a commitment to make any future Awards. This Performance Unit Award and any payments made hereunder will not be considered salary or other compensation for purposes of any severance pay or similar allowance, except as otherwise required by law.

**15. Data Privacy.** Information about the Participant and the Participant's participation in the Plan may be collected, recorded, and held, used and disclosed for any purpose related to the administration of the Plan. The Participant understands that such processing of this information may need to be carried out by the Company and by third-party administrators whether such persons are located within the Participant's country or elsewhere, including the United States of America. The Participant consents to the processing of information relating to the Participant and the Participant's participation in the Plan in any one or more of the ways referred to above.

**16. Amendments.** Any amendment to the Plan shall be deemed to be an amendment to this Award Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the rights of the Participant hereunder without the Participant's consent.

**17. Severability.** In the event that one or more of the provisions of this Award Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

**18. Binding Effect.** Participant acknowledges the receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof. The terms of the Plan as it presently exists, and as it may be amended, are deemed incorporated herein by reference, and any conflict between the terms of the Award Agreement and the provisions of the Plan shall be resolved by the Committee, whose determination shall be final and binding on all parties. In general, and except as otherwise determined by the Committee, the provisions of the Plan shall be deemed to supersede the provisions of this Award Agreement to the extent of any conflict between the Plan and this Award Agreement. In addition, notwithstanding the terms set forth herein, the Committee shall have the right to grant Performance Units upon such terms as it deems appropriate, so long as such provisions are within the terms of the Plan.

**19. Notices.** Any notice pursuant to this Award Agreement to the Company shall be addressed to it at its office at 701 Lima Avenue, Findlay, Ohio 45840, Attention: Secretary of Cooper Tire & Rubber Company. Any notice pursuant to the Award Agreement to Participant shall be addressed to the Participant at the address as set forth below. Either party shall have the right to designate at any time hereafter in writing a different address.

**20. Governing Law.** This Award Agreement shall be governed by and construed in accordance with the laws of the State of Delaware and shall in all respects be interpreted, enforced and governed under the internal and domestic laws of such state. Any claims or legal actions by one party against the other arising out of the relationship between the parties contemplated herein (whether or not arising under this Award Agreement) shall be governed by the laws of the State of Delaware.

**21. Performance Units Subject to the Company's Clawback Policy.** Notwithstanding anything in this Award Agreement to the contrary, the Performance Units and Common Shares and cash payable with respect thereto shall be subject to the Company's clawback policy, as it may be in effect from time to time, including, without limitation, the provisions of such clawback policy required by Section 10D of the Exchange Act and any applicable rules or regulations issued by the U.S. Securities and Exchange Commission or any national securities exchange or national securities association on which the Common Shares may be traded.

**22. Defined Terms.** For the purposes of this Award Agreement, the following terms are defined. Capitalized terms that are not defined herein are used as defined in the Plan.

(a) "**Affiliated Employer**" means any corporation, partnership, limited liability company, joint venture, unincorporated association or other entity in which Cooper Tire & Rubber Company has a direct or indirect ownership or other equity interest.

(b) "**Cause**" means that prior to any termination of employment, the Participant shall have committed:

(i) any act or omission constituting a material breach by the Participant of any of his significant obligations to or agreements with the Company or the continued failure or refusal of the Participant to adequately perform the duties reasonably required by the Company which, in each case, is materially injurious to the financial condition or business reputation of, or is otherwise materially injurious to, the Company, after notification by the Board of such breach, failure or refusal and failure of the Participant to correct such breach, failure or refusal within thirty (30) days of such notification (other than by reason of the incapacity of the Participant due to physical or mental illness); or

(ii) any other willful act or omission which is materially injurious to the financial condition or business reputation of, or is otherwise materially injurious to the Company, and failure of the Participant to correct such act or omission within thirty (30) days after notification by the Board of any such act or omission (other than by reason of the incapacity of the Participant due to physical or mental illness); or

(iii) the Participant is found guilty of, or pleads guilty or *nolo contendere* to, a felony or any criminal act involving fraud, embezzlement, or theft.

For purposes of this Award Agreement, no act, or failure to act, on the Participant's part shall be deemed "willful" if done, or omitted to be done, by the Participant in good faith and with a reasonable belief that the Participant's action or omission was in the best interest of the Company. Any notification to be given by the Board in accordance with Section 22(a)(i) or 22(a)(ii) shall be in writing and shall specifically identify the breach, failure, refusal, act, omission or injury to which the notification relates and, in the case of Section 22(a)(i) or Section 22(a)(ii) shall describe the injury to the Company, and such notification must be given within twelve (12) months of the Board becoming aware of the breach, failure, refusal, act, omission or injury identified in the notification. Failure to notify the Participant within any such twelve (12) month period shall be deemed to be a waiver by the Board of any such breach, failure, refusal, act or omission by the Participant and any such breach, failure, refusal, act or omission by the Participant shall not then be determined to be a breach of this Award Agreement. For the avoidance of doubt and for the purpose

of determining Cause, the exercise of business judgment by the Participant shall not be determined to be Cause, even if such business judgment materially injures the financial condition or business reputation of, or is otherwise materially injurious to, the Company, unless such business judgment by the Participant was not made in good faith, or constitutes willful or wanton misconduct, or was an intentional violation of state or federal law.

(c) “ **Change in Control** ” means the occurrence of any of the following events:

(i) Cooper Tire & Rubber Company merges into itself, or is merged or consolidated with, another entity and as a result of such merger or consolidation less than 51% of the voting power of the then-outstanding voting securities of the surviving or resulting entity immediately after such transaction are directly or indirectly beneficially owned in the aggregate by the former stockholders of Cooper Tire & Rubber Company immediately prior to such transaction;

(ii) all or substantially all the assets accounted for on the consolidated balance sheet of Cooper Tire & Rubber Company are sold or transferred to one or more entities or persons, and as a result of such sale or transfer less than 51% of the voting power of the then-outstanding voting securities of such entity or person immediately after such sale or transfer is directly or indirectly beneficially held in the aggregate by the stockholders of Cooper Tire & Rubber Company immediately prior to such transaction or series of transactions;

(iii) a person, within the meaning of Section 3(a)(9) or 13(d)(3) (as in effect on the effective date of the Severance Plan) of the Securities Exchange Act of 1934, (the “Exchange Act”) (a “Person”) becomes the beneficial owner (as defined in Rule 13d-3 of the Securities and Exchange Commission pursuant to the Exchange Act) (a “Beneficial Owner”) of 35% or more of the voting power of the then-outstanding voting securities of Cooper Tire & Rubber Company; provided, however, that the foregoing does not apply to any such acquisition that is made by (w) any Affiliated Employer; (x) any employee benefit plan of Cooper Tire & Rubber Company or any Affiliated Employer; or (y) any person or group of which employees of Cooper Tire & Rubber Company or of any Affiliated Employer control a greater than 25% interest unless the Board determines that such person or group is making a “hostile acquisition;” or (z) any person or group that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Participant; or

(iv) a majority of the members of the Board are not Continuing Directors, where a “Continuing Director” is any member of the Board who (x) was a member of the Board on the effective date of the Severance Plan or (y) was nominated for election or elected to such Board with the affirmative vote of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election, provided that any director appointed or elected to the Board to avoid or settle a threatened or actual proxy contest (including but not limited to a consent solicitation) shall in no event be deemed to be a Continuing Director.

(d) “ **Disability** ” means the Participant becomes disabled and qualifies, or would have qualified, to receive disability benefits pursuant to the Company’s long-term disability plan in effect, provided the Participant is eligible to participate in such long-term disability plan (regardless of whether or not the Participant has elected to participate in such long-term disability plan).

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(e) “ **Net Income** ” has the meaning defined in the Statement of Performance Goals.

(f) “ **Performance Cash Unit** ” has the value of \$1 each.

(g) “ **Performance Stock Unit** ” has the value of one Common Share each.

(h) “ **Retirement** ” means termination of employment with the Company after the Participant’s continuous years of employment with the Company and the Participant’s age equal at least 75 years.

(i) “ **ROIC** ” has the meaning defined in the Statement of Performance Goals.

The undersigned Participant hereby acknowledges receipt of this Award Agreement and accepts the Performance Units granted thereunder, subject to the terms and conditions of the Plan and the terms and conditions hereinabove set forth.

«Name»

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Social Security No./Tax Identification No.

\_\_\_\_\_  
Home Address

\_\_\_\_\_  
City                      State                      Zip

The undersigned officer executes this Award Agreement on behalf of Cooper Tire & Rubber Company.

**COOPER TIRE & RUBBER COMPANY**

By: \_\_\_\_\_  
Brenda S. Harmon  
Sr. Vice President and CHRO

**COOPER TIRE & RUBBER COMPANY**  
**Performance Units**  
**Statement of Performance Goals**  
**First Measurement Period of the 20XX-20ZZ Performance Period**

1. Subject to any additional terms set forth in the resolutions adopted by the Committee approving a Participant’s Performance Award, the Performance Goals for the First Measurement Period and their respective weights are as set forth below:


2. Definitions of the performance criteria are:

3. Performance Goals for the Second Measurement Period and Third Measurement Period will be established by the Committee in its discretion and communicated to the Participant not later than ninety (90) days after the beginning of each such Measurement Period.

4. Exercise of Discretion: The Committee is authorized at any time during or after a Measurement Period or Performance Period to increase, reduce or eliminate the amount payable in respect of a Performance Award to any Participant with respect to the satisfaction of the Performance Goals set forth in paragraphs 1 and 3 of this Exhibit A, for any reason, including, without limitation, (a) in recognition of unusual or nonrecurring events affecting the Companies, or any business division or unit or the financial statements of the Companies, or in response to changes in applicable laws, regulations, or accounting principles, (b) to take into account a change in the position or duties of a Participant during the Measurement Period or Performance Period or a change in the Participant’s employment status during the Measurement Period or Performance Period, or (c) to take into account subjective or objective performance factors not otherwise set forth in the Plan or applicable Award Documents.

**Crediting of Notionally Earned Performance Units Based Upon Level of Achievement**



**COOPER TIRE & RUBBER COMPANY****20XX Nonqualified Stock Option Award Agreement**

**WHEREAS**, (the "Optionee") is an employee of Cooper Tire & Rubber Company or a Subsidiary (the "Company");

**WHEREAS**, the Compensation Committee of the Board of Cooper Tire & Rubber Company (the "Committee") approved the terms and authorized on , the grant of an Award of Options pursuant to Section 8 of the Cooper Tire & Rubber Company 2010 Incentive Compensation Plan (the "Plan"); and

**WHEREAS**, the Option is intended as a Nonqualified Stock Option and shall not be treated as an "incentive stock option" within the meaning of that term under Section 422 of the Code.

**NOW, THEREFORE**, pursuant to the Plan and subject to the terms and conditions thereof and the terms and conditions hereinafter set forth, the parties agree as follows:

**1. Grant of Option.** Subject to the terms and conditions of this Award Agreement and the provisions of the Plan, and including the vesting provisions set forth in Section 2, the Company hereby grants to the Optionee an Option to purchase shares of the Cooper Tire & Rubber Company's Common Shares at an exercise price of \$ per share, which is the Fair Market Value of a Common Share as of the Date of Grant.

**2. Right to Exercise.**

(a) Except as otherwise provided herein, the Option will become exercisable to the extent of one-third of the total number of Common Shares underlying the Option on each of the first three (3) anniversaries of the Date of Grant if the Optionee remains continuously employed by the Company until each such time. To the extent the Option is exercisable; it may be exercised in whole or in part.

(b) In addition to becoming exercisable as provided in Section 2(a) above, in the event of a Change in Control during the employment of the Optionee and prior to the termination of the Option, the Option shall become exercisable as follows:

(i) If the Optionee is a participant in the Cooper Tire & Rubber Company's Change in Control Severance Pay Plan (the "Severance Plan"), the Option shall become exercisable as provided in the Severance Plan.

(ii) If the Optionee is not a participant in the Severance Plan, with respect to an Optionee whose employment is terminated during the Severance Period by the Company and such termination is without Cause, if upon a Change in Control, the successor to Cooper Tire & Rubber Company assumes (expressly or impliedly by operation of law) the Company's obligations under this Award Agreement or Plan or

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issues to the Optionee a substitute stock option award of equivalent value on no less favorable terms for vesting or payment as provided under this Option, the Option granted to the Optionee by the Company which has not otherwise vested shall vest immediately upon the Optionee's termination of employment during the Severance Period, and the vested Option shall remain exercisable for a period of ninety (90) days following the Optionee's termination (or such longer period as set forth in this Award Agreement or Plan) but not later than the expiration of the stated option term. If the Optionee's employment is terminated during the Severance Period for Cause, the Option shall terminate pursuant to Section 4(a).

(iii) If the Optionee is not a participant in the Severance Plan, regardless of whether or not the Optionee's employment is terminated during the Severance Period, if upon a Change in Control, the successor to Cooper Tire & Rubber Company has not assumed (expressly or impliedly by operation of law) the Company's obligations under this Award Agreement or Plan or issued to the Optionee a substitute stock option award of equivalent value on no less favorable terms for vesting or payment as provided under this Option so replaced, the Option granted to the Optionee by the Company which has not otherwise vested shall vest immediately upon the consummation of the Change in Control, and such vested Option, to the extent that the Common Shares underlying the Option remain outstanding, shall remain exercisable for a period of ninety (90) days following the Optionee's termination (or such longer period as may be set forth in this Award Agreement or Plan), but not later than the expiration of the stated option term. In the event the Common Shares underlying the Option do not remain outstanding, on the date such Common Shares cease to be outstanding, the Company shall pay to the Optionee with respect to the Option a lump-sum cash payment equal to the excess of the per-share consideration received by holders of the Common Shares upon the Change in Control over the exercise price of the Option.

### **3. Exercise and Payment.**

(a) The Option may be exercised in whole or in part, subject to the vesting requirements and limitations on exercise set forth in Section 2 above. Exercise shall be accomplished by delivery to the Company of timely written notice of election to exercise, delivered to the principal office of the Company and addressed to the attention of the Secretary of Cooper Tire & Rubber Company or his designate, accompanied by payment of the exercise price for the Common Shares with respect to which the Option is exercised, or to the extent permitted by law, by the presentation of such documentation from a stock broker acting on behalf of the Optionee as is satisfactory to the Company and is in accordance with its procedural requirements to permit a "cashless" exercise of the Option.

(b) The exercise price shall be payable (i) in cash or by check or by wire transfer of immediately available funds, as acceptable to the Company, (ii) by actual or constructive transfer to the Company of nonforfeitable, unrestricted Common Shares; or (iii) by a combination of such methods of payment. The requirement of payment in cash shall be deemed satisfied if the Optionee shall have made arrangements satisfactory to the Company in accordance with its procedural requirements to permit a cashless exercise as provided in Section 3(a) above.

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**4. Termination** . Notwithstanding Section 2 above, the Option shall terminate on the earliest of the following dates:

(a) Termination for Cause: The date on which the Optionee ceases to be an employee of the Company;

(b) Voluntary Termination: Thirty (30) days after the Optionee ceases to be an employee of the Company, in which case, the Option shall be exercisable only to the extent the Option was exercisable on the date of termination of employment;

(c) Involuntary Termination: Ninety (90) days after the Optionee ceases to be an employee of the Company, other than for Cause, in which case, the Option shall be exercisable only to the extent the Option was exercisable on the date of termination of employment;

(d) Death: One (1) year after the Optionee's death while an employee of the Company, in which case, the Option becomes immediately exercisable in full by the designated beneficiary of the Optionee, or if there is no designated beneficiary or such beneficiary does not survive the Optionee, by the estate of the Optionee. The Optionee shall designate a beneficiary for the purposes of exercising the Option at any time by furnishing the Company with a beneficiary designation form. The Optionee may change or revoke a designated beneficiary at any time by furnishing a revised beneficiary designation form to the Company;

(e) Disability: One (1) year after the Optionee's employment terminates by reason of Disability while an employee of the Company, in which case, the Option becomes immediately exercisable in full;

(f) Retirement: Five (5) years after Optionee's employment terminates by reason of Retirement, in which case, the unvested Options continue to vest and the vested and unvested options shall remain exercisable pursuant to Section 2(a) during such five (5) year period; and

(g) Ten (10) years from the Date of Grant which is the close of business on February 19, 2024.

**5. Option Nontransferable** . The Option is not transferable by the Optionee except by will or the laws of descent and distribution. During the lifetime of the Optionee, the Option may be exercised only by the Optionee.

**6. Compliance with Laws and Regulations** . The Option and the obligation of the Company to sell and deliver Common Shares shall be subject to all applicable governmental laws, rules and regulations. Cooper Tire & Rubber Company shall not be required to issue or deliver any certificates for Common Shares prior to (a) the listing of such Common Shares on any stock exchange on which the Common Shares may then be listed and (b) the completion of any registration or qualification of such Common Shares under any governmental law, or any rule or regulation of any government body or stock exchange which the Company shall determine to be necessary or desirable.

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**7. No Dividend Equivalents** . The Optionee shall not be entitled to dividend equivalents.

**8. Taxes and Withholding** . Upon exercise of an Option, the Company will notify the Optionee of the amount of tax (if any) which must be withheld by the Company under all applicable U.S. or foreign federal, state and local tax laws. If the Optionee is subject to any U.S. or foreign federal, state or local tax withholding requirements at the time of the exercise, the Optionee agrees to make arrangements with the Company to (a) remit the required amount to the Company, (b) authorize the Company to withhold a portion of the Common Shares otherwise issuable upon the exercise with a value equal to such tax, however, in no event shall the Company accept Common Shares for payment of taxes in excess of the minimum amount of taxes required to be withheld, (c) authorize the deduction of such amounts from the Optionee's other payments from the Company, or (d) otherwise satisfy the applicable tax withholding requirement in a manner satisfactory to the Company.

**9. No Right to Continuation of Employment** . Neither this Award Agreement nor any action taken hereunder shall be construed as giving the Optionee any right to continued employment with the Company and neither this Award Agreement nor any action taken hereunder shall be construed as entitling the Company to the services of the Optionee for any period of time. For purposes of this Award Agreement, the continuous employment of the Optionee with the Company shall not be deemed interrupted, and the Optionee shall not be deemed to have ceased to be employed by the Company, by reason of (a) the transfer of his employment among the Companies or (b) a leave of absence approved by the Committee in its sole discretion. The Option is a voluntary, discretionary Award being made on a one-time basis and it does not constitute a commitment to make any future Awards. This Option and any payments made hereunder will not be considered salary or other compensation for purposes of any severance pay or similar allowance, except as otherwise required by law.

**10. Data Privacy** . Information about the Optionee and the Optionee's participation in the Plan may be collected, recorded, and held, used and disclosed for any purpose related to the administration of the Plan. The Optionee understands that such processing of this information may need to be carried out by the Company and by third-party administrators whether such persons are located within the Optionee's country or elsewhere, including the United States of America. The Optionee consents to the processing of information relating to the Optionee and the Optionee's participation in the Plan in any one or more of the ways referred to above.

**11. No Rights as Stockholder** . The Optionee shall have no rights as a stockholder with respect to any Common Shares subject to the Option prior to the date of issuance to the Optionee of a certificate or certificates for such Common Shares.

**12. Amendments** . Any amendment to the Plan shall be deemed to be an amendment to this Award Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the rights of the Optionee hereunder without the Optionee's consent.

**13. Severability** . In the event that one or more of the provisions of this Award Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

**14. Binding Effect** . Optionee acknowledges the receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof. The terms of the Plan as it presently exists, and as it may be amended, are deemed incorporated herein by reference, and any conflict between the terms of the Award Agreement and the provisions of the Plan shall be resolved by the Committee, whose determination shall be final and binding on all parties. In general, and except as otherwise determined by the Committee, the provisions of the Plan shall be deemed to supersede the provisions of this Award Agreement to the extent of any conflict between the Plan and this Award Agreement. In addition, notwithstanding the terms set forth herein, the Committee shall have the right to grant Options upon such terms as it deems appropriate, so long as such provisions are within the terms of the Plan.

**15. Notices** . Any notice pursuant to this Award Agreement to the Company shall be addressed to it at its office at 701 Lima Avenue, Findlay, Ohio 45840, Attention: Secretary of Cooper Tire & Rubber Company. Any notice pursuant to the Award Agreement to Optionee shall be addressed to the Optionee at the address as set forth below. Either party shall have the right to designate at any time hereafter in writing a different address.

**16. Governing Law** . This Award Agreement shall be governed by and construed in accordance with the laws of the State of Delaware and shall in all respects be interpreted, enforced and governed under the internal and domestic laws of such state. Any claims or legal actions by one party against the other arising out of the relationship between the parties contemplated herein (whether or not arising under this Award Agreement) shall be governed by the laws of the State of Delaware.

**17. Option Subject to the Company's Clawback Policy** . Notwithstanding anything in this Award Agreement to the contrary, the Option shall be subject to the Company's clawback policy, as it may be in effect from time to time, including, without limitation, the provisions of such clawback policy required by Section 10D of the Exchange Act and any applicable rules or regulations issued by the U.S. Securities and Exchange Commission or any national securities exchange or national securities association on which the Common Shares may be traded.

**18. Defined Terms** . For the purposes of this Award Agreement, the following terms are defined. Capitalized terms that are not defined herein are used as defined in the Plan.

(a) “ **Affiliated Employer** ” means any corporation, partnership, limited liability company, joint venture, unincorporated association or other entity in which Cooper Tire & Rubber Company has a direct or indirect ownership or other equity interest.

(b) “ **Cause** ” means that prior to any termination of employment, the Optionee shall have committed:

(i) any act or omission constituting a material breach by the Optionee of any of his significant obligations to or agreements with the Company or the continued failure or refusal of the Optionee to adequately perform the duties reasonably required by the Company which, in each case, is materially injurious to the financial condition or

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business reputation of, or is otherwise materially injurious to, the Company, after notification by the Board of such breach, failure or refusal and failure of the Optionee to correct such breach, failure or refusal within thirty (30) days of such notification (other than by reason of the incapacity of the Optionee due to physical or mental illness); or

(ii) any other willful act or omission which is materially injurious to the financial condition or business reputation of, or is otherwise materially injurious to the Company, and failure of the Optionee to correct such act or omission within thirty (30) days after notification by the Board of any such act or omission (other than by reason of the incapacity of the Optionee due to physical or mental illness); or

(iii) the Optionee is found guilty of, or pleads guilty or *nolo contendere* to, a felony or any criminal act involving fraud, embezzlement, or theft.

For purposes of this Award Agreement, no act, or failure to act, on the Optionee's part shall be deemed "willful" if done, or omitted to be done, by the Optionee in good faith and with a reasonable belief that the Optionee's action or omission was in the best interest of the Company. Any notification to be given by the Board in accordance with Section 18(a)(i) or 18(a)(ii) shall be in writing and shall specifically identify the breach, failure, refusal, act, omission or injury to which the notification relates and, in the case of Section 18(a)(i) or Section 18(a)(ii) shall describe the injury to the Company, and such notification must be given within twelve (12) months of the Board becoming aware of the breach, failure, refusal, act, omission or injury identified in the notification. Failure to notify the Optionee within any such twelve (12) month period shall be deemed to be a waiver by the Board of any such breach, failure, refusal, act or omission by the Optionee and any such breach, failure, refusal, act or omission by the Optionee shall not then be determined to be a breach of this Award Agreement. For the avoidance of doubt and for the purpose of determining Cause, the exercise of business judgment by the Optionee shall not be determined to be Cause, even if such business judgment materially injures the financial condition or business reputation of, or is otherwise materially injurious to, the Company, unless such business judgment by the Optionee was not made in good faith, or constitutes willful or wanton misconduct, or was an intentional violation of state or federal law.

"(c) **Change in Control**" means the occurrence of any of the following events:

(i) Cooper Tire & Rubber Company merges into itself, or is merged or consolidated with, another entity and as a result of such merger or consolidation less than 51% of the voting power of the then-outstanding voting securities of the surviving or resulting entity immediately after such transaction are directly or indirectly beneficially owned in the aggregate by the former stockholders of Cooper Tire & Rubber Company immediately prior to such transaction;

(ii) all or substantially all the assets accounted for on the consolidated balance sheet of Cooper Tire & Rubber Company are sold or transferred to one or more entities or persons, and as a result of such sale or transfer less than 51% of the voting power of the then-outstanding voting securities of such entity or person immediately after such sale or transfer is directly or indirectly beneficially held in the aggregate by the stockholders of Cooper Tire & Rubber Company immediately prior to such transaction or series of transactions;

(iii) a person, within the meaning of Section 3(a)(9) or 13(d)(3) (as in effect on the effective date of the Severance Plan) of the Securities Exchange Act of 1934, (the “Exchange Act”) (a “Person”) becomes the beneficial owner (as defined in Rule 13d-3 of the Securities and Exchange Commission pursuant to the Exchange Act) (a “Beneficial Owner”) of 35% or more of the voting power of the then-outstanding voting securities of Cooper Tire & Rubber Company; provided, however, that the foregoing does not apply to any such acquisition that is made by (w) any Affiliated Employer; (x) any employee benefit plan of Cooper Tire & Rubber Company or any Affiliated Employer; or (y) any person or group of which employees of Cooper Tire & Rubber Company or of any Affiliated Employer control a greater than 25% interest unless the Board determines that such person or group is making a “hostile acquisition;” or (z) any person or group that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Optionee; or

(iv) a majority of the members of the Board are not Continuing Directors, where a “Continuing Director” is any member of the Board who (x) was a member of the Board on the effective date of the Severance Plan or (y) was nominated for election or elected to such Board with the affirmative vote of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election, provided that any director appointed or elected to the Board to avoid or settle a threatened or actual proxy contest (including but not limited to a consent solicitation) shall in no event be deemed to be a Continuing Director.

(d) “**Disability**” means the Optionee becomes disabled and qualifies, or would have qualified, to receive disability benefits pursuant to the Company’s long-term disability plan in effect, provided the Optionee is eligible to participate in such long-term disability plan (regardless of whether or not the Optionee has elected to participate in such long-term disability plan).

“**Retirement**” means termination of employment with the Company after the sum of the Optionee’s age and years of continuous employment with the Company equal at least 75 years.

(f) “**Severance Period**” means the period of time commencing on the date of the first occurrence of a Change in Control and continuing until the earlier of (i) the second anniversary of the occurrence of the Change in Control; (ii) the Optionee’s death; or (iii) the date the Optionee’s employment is terminated due to Disability.

The undersigned Optionee hereby acknowledges receipt of this Award Agreement and accepts the Option granted thereunder, subject to the terms and conditions of the Plan and the terms and conditions hereinabove set forth.

«Name»

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Social Security No./Tax Identification No.

\_\_\_\_\_  
Home Address

\_\_\_\_\_  
City                      State                      Zip

The undersigned officer executes this Award Agreement on behalf of Cooper Tire & Rubber Company.

**COOPER TIRE & RUBBER COMPANY**

By: \_\_\_\_\_  
Brenda S. Harmon  
Sr. Vice President and CHRO



## Agreement

This Agreement is dated as of the 29<sup>th</sup> of January 2014 by and between:

1. Cooper Tire & Rubber Company (“CTB”)
2. Cooper Tire Investment Holding (Barbados) Ltd. (“Cooper Barbados”) 1&2 are collectively referred as to “Cooper”
3. Chengshan Group Company Ltd. (“Chengshan”)
4. The Union of Cooper Chengshan (Shandong) Tire Company Co., Ltd. (“CCT Union”)

The CCT Union will immediately return Cooper Chengshan (Shandong) Tire Company Limited (“CCT”) back to “normal operations”, and those operations shall continue, with the full support of Chengshan, which shall be jointly responsible for such return and continuation. The primary actions include starting and continuing processing all operational and financial data to generate certified financial statements, including certification by Ernst & Young, providing Cooper and its accountants full access to the facility and this information, and to otherwise using reasonable best efforts to assist in the generation of such certified financial statements, so that CTB can report its third quarter and full year 2013 financial statements, including results for CCT, with the U.S. Securities and Exchange Commission (the “SEC”) by no later than March 3, 2014 (for the third quarter 2013 financial statements), and March 14, 2014 (for the full year 2013 financial statements), and continue timely regular reporting thereafter. CCT will also begin immediate production of Cooper-branded products (both PCR and TBR, of the general types it has historically produced) for supply to Cooper. Additionally, Cooper-appointed management will be able to be back into their respective roles and responsibilities at CCT, with full cooperation of the CCT Union and Chengshan. The parties agree that the CCT company chop and registration documents should be under the control of CCT’s general manager, and the CCT Union and Chengshan shall ensure the delivery of them to the CCT general manager immediately. (The actions set forth in this paragraph shall be referred to as “Action I”.)

Upon signing of this Agreement by the parties, and subject to the termination provisions set forth herein, all parties agree to cease fighting and take the actions set forth in this paragraph. Additionally Cooper will assist where possible to return CCT back to normal operations. In parallel with Action I being implemented, Cooper will take actions to permanently stop all fighting and adverse actions against Chengshan, any members or individuals of Chengshan, CCT Union, any members or individuals of CCT with regard to the events that have occurred since June 12, 2013 through the date of this Agreement. Simultaneously, Chengshan and CCT Union, and their members and individuals, will take actions to permanently stop all fighting and adverse actions against Cooper and CCT and any members or individuals of Cooper and CCT with regard to the events that have occurred since June 12, 2013 through the date of this Agreement. Neither party shall take any adverse

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actions in the future against the other parties nor any of their members or individuals associated with them with regard to the events that have occurred since June 12, 2013 through the date of this Agreement. Upon the commencement of Action I, the parties will work together to prepare an agreement setting forth the details of the actions set forth in this paragraph. (The actions set forth in this paragraph shall be referred to as "Action II".) For the avoidance of doubt, nothing set forth in this paragraph will be continually binding on any party in the event that this Agreement is terminated.

Within 30 days of signing this Agreement, Cooper and Chengshan shall discuss and jointly engage an internationally recognized valuation firm (for example, PricewaterhouseCoopers, KPMG or Houlihan Lokey) to determine the fair market value of CCT on a stand-alone basis, which value shall not take into consideration the value of the trademarks and technologies licensed by Cooper to CCT. If Cooper and Chengshan fail to reach a consensus in selecting a valuation firm within 30 days of signing this Agreement, Chengshan shall select the valuation firm to be engaged by Cooper and Chengshan only from the following U.S. accounting firms: PricewaterhouseCoopers LLP, KPMG LLP, and Deloitte LLP (the "Approved Firms"), which firms may engage their affiliate firms in Shanghai or Beijing, China to assist in the valuation. The valuation firm shall be instructed to complete the valuation of CCT within 60 days after the valuation firm's engagement and the delivery to the valuation firm of audited 2013 financials for CCT, or such later date as is agreed to by Cooper and Chengshan. The parties shall use their reasonable best efforts to assist the valuation firm in completing the valuation, and doing so on a timely basis. In the event the valuation firm does not deliver a valuation, or does not do so on a timely basis, Cooper and Chengshan shall work together to get the firm to complete the valuation or engage a replacement firm to perform the valuation, but in no circumstances will the purchase or sale options set forth in this paragraph be effective unless Cooper and Chengshan receive a fair market valuation of CCT from either an Approved Firm or another valuation firm that is agreed to by both Cooper and Chengshan. In the event that the above efforts fail to provide a valuation by such a valuation firm on or before May 13, 2014, the parties agree to extend the time period to obtain a valuation for an additional 90 days beyond such date to August 11, 2014. If such extension period is needed, the parties agree to continue to work cooperatively during such period to obtain a valuation in accordance with the processes described above. If the valuation firm does not deliver a valuation to Cooper and Chengshan on or before August 11, 2014, then the purchase and sale options set forth in this Agreement shall terminate and be of no effect, unless Cooper elects to extend such date, at its sole discretion. Chengshan shall notify Cooper within 45 days after the Option Commencement Date (defined below) of its election to either (i) purchase Cooper Barbados's 65% ownership interest in CCT at 65% of the Option Price (defined below), (ii) sell to Cooper its 35% ownership interest in CCT at 35% of the Option Price or (iii) do neither (i) or (ii). If Chengshan does not exercise its option to purchase Cooper Barbados's 65% ownership interest in CCT or sell to Cooper its 35% ownership interest in CCT pursuant to clauses (i) or (ii) of the prior sentence, respectively, within 45 days after the Option Commencement Date, Chengshan's option shall expire and Cooper shall have the right to purchase Chengshan's 35% ownership interest in CCT at 35% of the Option Price. If Cooper does not exercise this option within 90 days of the Option

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Commencement Date, the option shall lapse. In the event neither Chengshan nor Cooper exercises their respective options prior to their expiration, then Chengshan and Cooper shall discuss potential new ownership structures for CCT. For purposes of this agreement, Option Price shall mean the greater of (a) the fair market value of CCT determined by the valuation firm, and (b) US\$435 million. For purposes of this Agreement, Option Commencement Date shall mean the later of (y) the date the valuation firm delivers the valuation to Cooper and Chengshan, and (z) the date Cooper has filed its certified third quarter and full year 2013 financial statements and any other financial reports required at the time, including results for CCT, with the SEC, provided, however, that if the Option Commencement Date shall not have occurred on or before August 11, 2014, then the Option Commencement Date shall never occur. The purchase price for any sales pursuant to the options described in this paragraph shall be paid in cash at closing. If Chengshan purchases Cooper Barbados's 65% ownership interest in CCT, Cooper shall continue to have TBR and PCR tire offtake rights for brands owned by Cooper for at least three years from the closing of such sale. Upon the signing of this Agreement, Cooper and Chengshan will work together, using their reasonable best efforts, to prepare an agreement setting forth the details of the buy-sell rights set forth in this paragraph, which agreement and rights shall be governed by the CCT Joint Venture Agreement (including governing law, dispute resolution and other relevant provisions). The buy-sell rights set forth herein and in such agreement shall be separate and in addition to the purchase, sale, transfer, right of first refusal and other rights set forth in the CCT Joint Venture Agreement, which shall not be eliminated by the rights described herein. Such agreement shall provide (v) a reasonable expeditious time period for closing such transactions, as well as the structure and details for closing such transactions, (w) a penalty of US\$15 million which shall be payable by Cooper Barbados or Chengshan to the other for failing to close a purchase or sale pursuant to the valid exercise of one of the options described in this paragraph, which penalty shall be in addition to any other relief which may be sought by a non-breaching party under applicable law, (x) the orderly return of tangible and intangible property to a party selling its interest (including, without limitation, the termination of all licensing agreements related to Cooper's intellectual property and the return to Cooper of tire molds for tire brands owned by Cooper, if Cooper Barbados sells its interest to Chengshan), (y) the framework for any ongoing commercial relationship between the selling party and CCT (including potential reasonable supply agreements, services agreements or transition agreements) and (z) other relevant matters. Cooper and Chengshan agree that, prior to the earliest of (i) September 25, 2014, (ii) 45 days after the date the valuation is delivered by the valuation firm, and (iii) any change in the CCT ownership structure or agreement to change the CCT ownership structure, (A) CCT shall continue to operate in the ordinary course of business and without any major changes to its organizational structure or business activities, and the parties will cooperate to preserve the value of CCT, and (B) the CCT company chop will be used in the ordinary business course and usual operation of CCT, and any use of the company chop in a manner that is not consistent with the protective rights of the shareholders of CCT set forth in the CCT Joint Venture agreement and the CCT governing documents, as well as those agreed to in writing between the parties, shall require the written authorization of both CCT's general manager and deputy general manager. The parties will work together to prepare a complete list of such protective rights upon signing this Agreement. (The actions set forth in this paragraph shall be referred to as "Action III".)

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During the above discussions between Cooper and Chengshan, both parties will take into consideration the interest of the CCT employees and local government.

This Agreement shall be effective immediately after it is duly executed by the parties below. This Agreement will be governed by and construed in accordance with the laws of the People's Republic of China without reference to its conflict of laws principles. If at any time Cooper as one party, or either the CCT Union or Chengshan, as the other party, does not perform the actions described herein (including in Action I, II, or III), email notice should be served to the breaching party and other parties (CTB's email address: [JJMcCracken@coopertire.com](mailto:JJMcCracken@coopertire.com) & [axhu@coopertire.com](mailto:axhu@coopertire.com), Cooper Barbados's email address: [JJMcCracken@coopertire.com](mailto:JJMcCracken@coopertire.com) & [axhu@coopertire.com](mailto:axhu@coopertire.com), Chengshan's email address [qjsun@chengshan.com](mailto:qjsun@chengshan.com), and CCT Union's email address [ytliang@cooperchengshan.com](mailto:ytliang@cooperchengshan.com)) and within 7 days after the email notice all parties shall convene a meeting to discuss such violation and appropriate remediation measures. If the meeting is not convened within the above time frame for whatever reason, or adequate remedial measures are not taken to the satisfaction of the non-breaching party, then 7 days after email notice is served or such meeting is conveyed, all the contents in this Agreement will terminate and become void and null immediately at the election of Cooper (for any breach by Chengshan or the CCT Union) or Chengshan (for any breach by Cooper), provided that such election shall not limit the non-breaching parties' rights to seek damages, or to not terminate this Agreement and instead seek specific performance. For purposes of this Agreement, the inability of CTB to report its certified third quarter and full year 2013 financial statements, including results for CCT, with the SEC by March 3, 2014 (for the third quarter 2013 financial statements), and March 14, 2014 (for the full year 2013 financial statements), or to be able to continue timely regular reporting thereafter, due to the situation at CCT after signing of this Agreement, will be considered a failure to perform by Chengshan and the CCT union and all contents in this Agreement will become void and null immediately at the election of Cooper, provided that such election shall not limit Cooper's rights to seek damages, or to not terminate this Agreement and instead seek specific performance. Without limiting the generality of the foregoing, if the CCT Union and Chengshan have performed all of the actions required of them in this Agreement and Cooper is unable to report its financial statements on the timeframe described above, then the provisions of Action III of this Agreement will terminate and become null and void immediately and the remaining provisions of this Agreement shall remain in full force and effect. For the avoidance of doubt, the rights granted pursuant to this Agreement are in addition to those granted under the CCT Joint Venture Agreement, and neither the entering into nor termination of this Agreement, nor any Action under this Agreement, shall affect the validity or enforceability of the CCT Joint Venture Agreement. Any dispute arising under this Agreement shall be resolved exclusively and finally by arbitration in Hong Kong at the Hong Kong International Arbitration Center ("HKIC") in accordance with the arbitration rules of the HKIC for the time being in force which rules are deemed to be incorporated by reference to hereunder.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives on the date first set forth above.

Cooper Tire & Rubber Company

/s/ Harold C Miller

Harold (Hal) C. Miller  
Vice President

Cooper Tire Investment Holding (Barbados) Ltd.

/s/ Harold C Miller

Harold (Hal) C. Miller  
Chairman & President

Chengshan Group Company Limited

/s/ Hongzhi Che

Chairman

The Union of Cooper Chengshan (Shandong) Tire  
Company Co., Ltd.

/s/ Chunxue Yue

The Union's President

## CERTIFICATIONS

I, Roy V. Armes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cooper Tire & Rubber Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2014

/s/ Roy V. Armes

Roy V. Armes, Chairman of the Board,  
President and Chief Executive Officer

## CERTIFICATIONS

I, Bradley E. Hughes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cooper Tire & Rubber Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2014

/s/ Bradley E. Hughes  
Bradley E. Hughes, Vice President,  
Chief Financial Officer and Treasurer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cooper Tire & Rubber Company (the "Company") on Form 10-Q for the period ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: May 2, 2014

/s/ Roy V. Armes

Name: Roy V. Armes

Title: Chief Executive Officer

/s/ Bradley E. Hughes

Name: Bradley E. Hughes

Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.