

COOPER TIRE & RUBBER CO

FORM 10-Q (Quarterly Report)

Filed 08/07/14 for the Period Ending 06/30/14

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

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

FORM 10-Q

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

For the quarterly period ended June 30, 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)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

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

Number of shares of common stock of registrant outstanding
at July 31, 2014: 63,604,741

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	June 30, 2014 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 397,731	\$ 326,636
Notes receivable	86,965	83,241
Accounts receivable, less allowances of \$16,996 at 2013 and \$16,011 at 2014	360,405	496,933
Inventories at lower of cost or market:		
Finished goods	360,686	463,327
Work in process	35,576	42,759
Raw materials and supplies	120,913	135,507
	517,175	641,593
Other current assets	92,514	86,994
Total current assets	1,454,790	1,635,397
Property, plant and equipment:		
Land and land improvements	51,186	51,396
Buildings	326,635	327,951
Machinery and equipment	1,847,576	1,885,942
Molds, cores and rings	246,760	250,727
	2,472,157	2,516,016
Less accumulated depreciation and amortization	1,497,888	1,538,557
Net property, plant and equipment	974,269	977,459
Goodwill	18,851	18,851
Intangibles, net of accumulated amortization of \$63,354 at 2013 and \$69,048 2014	160,308	154,625
Restricted cash	2,759	1,016
Deferred income taxes	111,644	106,388
Other assets	15,526	16,170
Total assets	<u>\$2,738,147</u>	<u>\$2,909,906</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	\$ 22,105	\$ 24,478
Accounts payable	302,422	367,826
Accrued liabilities	211,090	240,142
Income taxes	11,098	10,568
Current portion of long-term debt	17,868	15,671
Total current liabilities	564,583	658,685
Long-term debt	320,959	326,188
Postretirement benefits other than pensions	238,653	239,257
Pension benefits	291,808	277,586
Other long-term liabilities	157,918	151,178
Deferred income tax liabilities	6,601	6,341
Redeemable noncontrolling shareholder interest	—	162,195
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	1,484
Retained earnings	1,741,611	1,787,360
Cumulative other comprehensive loss	(410,020)	(401,569)
	1,423,874	1,475,125
Less: common shares in treasury at cost (24,464,264 at 2013 and 24,256,065 at 2014)	(433,008)	(428,825)
Total parent stockholders' equity	990,866	1,046,300
Noncontrolling shareholder interest in consolidated subsidiary	166,759	42,176
Total equity	<u>1,157,625</u>	<u>1,088,476</u>
Total liabilities and equity	<u>\$2,738,147</u>	<u>\$2,909,906</u>

See accompanying notes.

COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED JUNE 30, 2013 AND 2014
(UNAUDITED)

(Dollar amounts in thousands except per-share amounts)

	<u>2013</u>	<u>2014</u>
Net sales	\$884,126	\$888,685
Cost of products sold	733,966	740,816
Gross profit	150,160	147,869
Selling, general and administrative	80,994	71,280
Operating profit	69,166	76,589
Interest expense	(7,231)	(6,792)
Interest income	141	270
Other - income (expense)	(834)	477
Income before income taxes	61,242	70,544
Income tax expense	19,642	25,786
Net income	41,600	44,758
Net income attributable to noncontrolling shareholders' interests	6,114	6,576
Net income attributable to Cooper Tire & Rubber Company	<u>\$ 35,486</u>	<u>\$ 38,182</u>
Basic earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	<u>\$ 0.56</u>	<u>\$ 0.60</u>
Diluted earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	<u>\$ 0.55</u>	<u>\$ 0.59</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
THREE MONTHS ENDED JUNE 30, 2013 AND 2014
(UNAUDITED)
(Dollar amounts in thousands)

	Three Months Ended June 30,	
	2013	2014
Net income	\$ 41,600	\$ 44,758
Other comprehensive income		
Cumulative currency translation adjustments		
Foreign currency translation adjustments	3,244	4,744
Financial instruments		
Change in the fair value of derivatives and marketable securities	2,266	(4,531)
Income tax expense on derivative instruments	(803)	1,699
Financial instruments, net of tax	1,463	(2,832)
Postretirement benefit plans		
Amortization of actuarial loss	12,469	9,164
Amortization of prior service credit	(142)	(141)
Income tax expense on postretirement benefit plans	(4,577)	(3,079)
Foreign currency translation effect	(392)	(2,730)
Postretirement benefit plans, net of tax	7,358	3,214
Other comprehensive income	12,065	5,126
Comprehensive income	53,665	49,884
Less comprehensive income attributable to noncontrolling shareholders' interests	6,062	6,783
Comprehensive income attributable to Cooper Tire & Rubber Company	\$ 47,603	\$ 43,101

See accompanying notes.

COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2013 AND 2014
(UNAUDITED)

(Dollar amounts in thousands except per-share amounts)

	<u>2013</u>	<u>2014</u>
Net sales	\$1,745,807	\$1,685,143
Cost of products sold	1,437,729	1,389,932
Gross profit	308,078	295,211
Selling, general and administrative	142,248	137,711
Operating profit	165,830	157,500
Interest expense	(14,332)	(13,910)
Interest income	437	783
Other - income (expense)	(239)	466
Income before income taxes	151,696	144,839
Income tax expense	47,259	48,353
Net income	104,437	96,486
Net income attributable to noncontrolling shareholders' interests	12,871	12,870
Net income attributable to Cooper Tire & Rubber Company	<u>\$ 91,566</u>	<u>\$ 83,616</u>
Basic earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	<u>\$ 1.45</u>	<u>\$ 1.32</u>
Diluted earnings per share:		
Net income attributable to Cooper Tire & Rubber Company common stockholders	<u>\$ 1.43</u>	<u>\$ 1.30</u>
Dividends per share	<u>\$ 0.210</u>	<u>\$ 0.210</u>

See accompanying notes.

COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
SIX MONTHS ENDED JUNE 30, 2013 AND 2014
(UNAUDITED)
(Dollar amounts in thousands)

	Six Months Ended June 30,	
	2013	2014
Net income	\$ 104,437	\$ 96,486
Other comprehensive income		
Cumulative currency translation adjustments		
Foreign currency translation adjustments	(2,935)	807
Financial instruments		
Change in the fair value of derivatives and marketable securities	4,793	(2,989)
Income tax benefit (expense) on derivative instruments	(1,942)	1,086
Financial instruments, net of tax	2,851	(1,903)
Postretirement benefit plans		
Amortization of actuarial loss	24,948	18,291
Amortization of prior service credit	(284)	(283)
Income tax expense on postretirement benefit plans	(9,166)	(6,192)
Foreign currency translation effect	5,783	(3,242)
Postretirement benefit plans, net of tax	21,281	8,574
Other comprehensive income	21,197	7,478
Comprehensive income	125,634	103,964
Less comprehensive income attributable to noncontrolling shareholders' interests	14,622	11,897
Comprehensive income attributable to Cooper Tire & Rubber Company	\$ 111,012	\$ 92,067

See accompanying notes.

COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2013 AND 2014
(UNAUDITED)
(Dollar amounts in thousands)

	2013	2014
Operating activities:		
Net income	\$ 104,437	\$ 96,486
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	65,510	69,767
Deferred income taxes	137	1,883
Stock based compensation	4,461	3,612
Change in LIFO inventory reserve	(18,219)	(35,062)
Amortization of unrecognized postretirement benefits	24,664	18,008
Changes in operating assets and liabilities:		
Accounts and notes receivable	(67,586)	(134,799)
Inventories	(74,142)	(89,116)
Other current assets	(14,485)	(3,493)
Accounts payable	(38,820)	66,072
Accrued liabilities	8,526	24,973
Other items	(8,454)	(8,410)
Net cash provided by (used in) operating activities	(13,971)	9,921
Investing activities:		
Additions to property, plant and equipment and capitalized software	(93,077)	(76,132)
Proceeds from the sale of assets	457	380
Net cash used in investing activities	(92,620)	(75,752)
Financing activities:		
Net issuance of short-term debt	14,186	3,003
Additions to long-term debt	19,577	15,634
Repayments on long-term debt	(9,916)	(12,603)
Payment of dividends to noncontrolling shareholders	(9,709)	(2,570)
Payment of dividends to Cooper Tire & Rubber Company shareholders	(13,296)	(13,332)
Issuance of common shares and excess tax benefits on options	1,594	2,387
Net cash provided by (used in) financing activities	2,436	(7,481)
Effects of exchange rate changes on cash	(3,509)	2,217
Changes in cash and cash equivalents	(107,664)	(71,095)
Cash and cash equivalents at beginning of year	351,817	397,731
Cash and cash equivalents at end of period	<u>\$ 244,153</u>	<u>\$ 326,636</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 six-month period ended June 30, 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 percent owned are consolidated, investments in affiliates of 50 percent or less but greater than 20 percent are accounted for using the equity method, and investments in affiliates of 20 percent or less are accounted for using the cost method. The Company does not consolidate any entity for which it has a variable interest based solely on power to direct the activities and significant participation in the entity's expected results that would not otherwise be consolidated based on control through voting interests. Further, the Company's joint ventures are businesses established and maintained in connection with the Company's operating strategy. All intercompany transactions and balances have been eliminated.

Accounting Pronouncements

Changes to accounting principles generally accepted in the United States of America (U.S. GAAP) are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification.

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

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 the 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.

Discontinued Operations – In April 2014, the FASB issued ASU 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,” which requires that a disposal representing a strategic shift that has or will have a major effect on an entity’s financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The guidance is effective for the interim and annual periods beginning on or after December 15, 2014 with early adoption permitted only for disposals that have not been previously reported. The implementation of the amended guidance is not expected to have a material impact on the Company’s consolidated financial statements.

Revenue Recognition – In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step model to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 with early adoption not permitted. The guidance permits the use of either a retrospective or cumulative effect transition method. The Company has not yet selected a transition method and is currently evaluating the impact of the amended guidance on its consolidated financial statements and related disclosures.

Stock-Based Compensation – In June 2014, the FASB issued ASU 2014-12 “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period,” which requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The guidance is effective for the interim and annual periods beginning on or after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. The Company is evaluating the impact, if any, of adopting this new accounting guidance on its 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.

Subsequent to the Transaction Date Assessment, in accordance with ASC 480, the carrying value of the redeemable noncontrolling shareholder interest is evaluated to determine if the redemption value as of the reporting date exceeds the carrying value. The Company reassessed the redemption value based upon the information known as of June 30, 2014. Based upon the Company's reassessment, the redemption value is deemed equal to the carrying value as of June 30, 2014.

The Company has determined that the recurring 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 during the period. Diluted earnings per share includes the dilutive effect of stock options and other stock units. The following table sets forth the computation of basic and diluted earnings per share:

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Numerator				
Numerator for basic and diluted earnings per share - Net income attributable to common stockholders	<u>\$ 35,486</u>	<u>\$ 38,182</u>	<u>\$ 91,566</u>	<u>\$ 83,616</u>
Denominator				
Denominator for basic earnings per share - weighted average shares outstanding	63,342	63,537	63,284	63,468
Effect of dilutive securities - stock options and other stock units	<u>800</u>	<u>944</u>	<u>879</u>	<u>942</u>
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	<u>64,142</u>	<u>64,481</u>	<u>64,163</u>	<u>64,410</u>
Basic earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	<u>\$ 0.56</u>	<u>\$ 0.60</u>	<u>\$ 1.45</u>	<u>\$ 1.32</u>
Diluted earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	<u>\$ 0.55</u>	<u>\$ 0.59</u>	<u>\$ 1.43</u>	<u>\$ 1.30</u>

There were no 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 at either June 30, 2013 or 2014.

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 June 30, 2014 was \$148,036 and \$162,704, respectively. The counterparties to each of these agreements are major commercial banks.

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

Foreign currency forward contracts are also used to hedge variable cash flows associated with forecasted sales and purchases denominated in currencies that are not the functional currency of certain entities. The forward contracts have maturities of less than twelve months pursuant to the Company's policies and hedging practices. These forward contracts meet the criteria for and have been designated as cash flow hedges. Accordingly, the effective portion of the change in fair value of such forward contracts (approximately \$398 and (\$2,591) as of December 31, 2013 and June 30, 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)	<u>December 31, 2013</u>	<u>June 30, 2014</u>
Designated as hedging instruments:		
Gross amounts recognized	\$ 2,702	\$(3,802)
Gross amounts offset	<u>(2,232)</u>	<u>1,111</u>
Net amounts	\$ 470	\$(2,691)
Not designated as hedging instruments:		
Gross amounts recognized	\$ (121)	\$ (165)
Gross amounts offset	<u>—</u>	<u>—</u>
Net amounts	<u>\$ (121)</u>	<u>\$ (165)</u>
Net amounts presented	Other current assets <u>\$ 349</u>	Accrued liabilities <u>\$(2,856)</u>

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)	
	Recognized in Other Comprehensive Income on Derivatives (Effective Portion)	Reclassified from Cumulative Other Comprehensive Loss into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)
Three Months Ended June 30, 2013	\$ 3,210	\$ 944	\$ (266)
Three Months Ended June 30, 2014	\$ (4,130)	\$ 401	\$ (245)
Six Months Ended June 30, 2013	\$ 5,242	\$ 449	\$ (210)
Six Months Ended June 30, 2014	\$ (1,689)	\$ 1,300	\$ (173)

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 June 30, 2013	2014	2013	2014
Foreign exchange contracts	Other income	\$ (130)	\$ 88	\$ (633)	\$ (44)

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:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- 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 June 30, 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 as of December 31, 2013 and June 30, 2014:

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

	June 30, 2014			
	Total Assets (Liabilities)	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Foreign Exchange Contracts	\$ (2,856)	\$ —	\$ (2,856)	\$ —
Stock-based Liabilities	\$ (16,729)	\$ (16,729)	\$ —	\$ —
Redeemable noncontrolling shareholder interest (see Footnote 2 - CCT Agreement)	\$(162,195)	\$ —	\$ —	\$ (162,195)

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)	—	—

	June 30, 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	\$ 326,636	\$ 326,636	\$ —	\$ —
Notes receivable	83,241	83,241	—	—
Restricted cash	1,016	1,016	—	—
Notes payable	(24,478)	(24,478)	—	—
Current portion of long-term debt	(15,671)	(15,671)	—	—
Long-term debt	(326,188)	(356,988)	—	—

5. Business Segments

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

	Three months ended June 30		Six months ended June 30	
	2013	2014	2013	2014
Revenues:				
North American Tire				
External customers	\$ 607,075	\$ 624,999	\$1,193,951	\$1,168,959
Intercompany	16,110	14,235	31,508	33,769
	<u>623,185</u>	<u>639,234</u>	1,225,459	<u>1,202,728</u>
International Tire				
External customers	277,052	263,686	551,856	516,184
Intercompany	76,218	63,134	142,445	120,582
	<u>353,270</u>	<u>326,820</u>	694,301	<u>636,766</u>
Eliminations	<u>(92,329)</u>	<u>(77,369)</u>	<u>(173,953)</u>	<u>(154,351)</u>
Net sales	<u>\$ 884,126</u>	<u>\$ 888,685</u>	<u>\$1,745,807</u>	<u>\$1,685,143</u>
Segment profit (loss):				
North American Tire	\$ 59,213	\$ 64,833	\$ 130,619	\$ 133,462
International Tire	29,229	26,459	59,239	49,607
Eliminations	117	(1,640)	1,164	(1,258)
Unallocated corporate charges	<u>(19,393)</u>	<u>(13,063)</u>	<u>(25,192)</u>	<u>(24,311)</u>
Operating profit	69,166	76,589	165,830	157,500
Interest expense	(7,231)	(6,792)	(14,332)	(13,910)
Interest income	141	270	437	783
Other - income (expense)	(834)	477	(239)	466
Income before income taxes	<u>\$ 61,242</u>	<u>\$ 70,544</u>	<u>\$ 151,696</u>	<u>\$ 144,839</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 \$510,199 at December 31, 2013 and June 30, 2014, respectively. These FIFO values have been reduced by approximately \$161,436 and \$126,374 at December 31, 2013 and June 30, 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 stock units, the Company recognizes compensation expense based on the earlier of the vesting date or the date when the employee becomes eligible to retire. If awards can be settled in cash, these awards are recorded as liabilities and marked to market.

The following table discloses the amount of stock based compensation expense for the three- month and six-month periods ended June 30, 2013 and 2014:

	Three months ended June 30		Six months ended June 30	
	2013	2014	2013	2014
Stock options	\$ 1,002	\$ 1,075	\$ 1,973	\$ 2,089
Restricted stock units	280	153	559	309
Performance stock units	1,361	948	1,929	1,214
Total stock based compensation	\$ 2,643	\$ 2,176	\$ 4,461	\$ 3,612

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 380,064 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:

	<u>2013</u>	<u>2014</u>
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 six months ended June 30, 2014:

	Number of Shares
Outstanding at January 1, 2014	1,710,244
Granted	380,064
Exercised	(121,419)
Expired	(53,000)
Cancelled	(13,414)
Outstanding at June 30, 2014	1,902,475
<i>Exercisable</i>	<i>1,119,451</i>

Restricted Stock Units (RSUs)

The following table provides details of the nonvested RSU activity for the six months ended June 30, 2014:

	Number of Restricted Units
Nonvested at January 1, 2014	60,686
Vested	(29,028)
Accrued dividend equivalents	394
Nonvested at June 30, 2014	<u>32,052</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	(2,104)
Accrued dividend equivalents	1,316
Performance stock units outstanding at June 30, 2014	<u>155,984</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 tables disclose the amount of net periodic benefit costs for the Company's defined benefit plans and other postretirement benefits relating to continuing operations:

	Pension Benefits - Domestic			
	Three months ended June 30		Six months ended June 30	
	2013	2014	2013	2014
Components of net periodic benefit cost:				
Service cost	\$ 2,970	\$ 2,440	\$ 5,940	\$ 4,880
Interest cost	9,657	10,710	19,314	21,421
Expected return on plan assets	(11,889)	(13,136)	(23,778)	(26,271)
Amortization of actuarial loss	11,086	7,006	22,172	14,011
Net periodic benefit cost	\$ 11,824	\$ 7,020	\$ 23,648	\$ 14,041

	Pension Benefits - International			
	Three months ended June 30		Six months ended June 30	
	2013	2014	2013	2014
Components of net periodic benefit cost:				
Service cost	\$ 3	\$ 3	\$ 6	\$ 6
Interest cost	3,841	5,009	7,727	9,935
Expected return on plan assets	(3,674)	(5,100)	(7,392)	(10,115)
Amortization of actuarial loss	904	2,158	1,818	4,280
Net periodic benefit cost	\$ 1,074	\$ 2,070	\$ 2,159	\$ 4,106

	Other Postretirement Benefits			
	Three months ended June 30		Six months ended June 30	
	2013	2014	2013	2014
Components of net periodic benefit cost:				
Service cost	\$ 954	\$ 601	\$ 1,907	\$ 1,202
Interest cost	2,698	2,826	5,396	5,652
Amortization of prior service cost	(142)	(141)	(284)	(283)
Amortization of actuarial loss	479	—	958	—
Net periodic benefit cost	\$ 3,989	\$ 3,286	\$ 7,977	\$ 6,571

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 Equity		
		Total Parent Stockholders' 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	10,937	83,616	1,933	85,549
Other comprehensive income	(992)	8,451	19	8,470
Dividends payable to noncontrolling shareholders	—	—	(2,570)	(2,570)
Stock compensation plans	—	4,984	—	4,984
Cash dividends - \$.210 per share	—	(13,332)	—	(13,332)
Balance at June 30, 2014	<u>\$ 162,195</u>	<u>\$1,046,300</u>	<u>\$ 42,176</u>	<u>\$1,088,476</u>

10. Changes in Cumulative Other Comprehensive Loss by Component

The following tables present the changes in Cumulative Other Comprehensive Loss by Component for the three- and six-month periods ended June 30, 2014. All amounts are presented net of tax. Amounts in parentheses indicate debits.

	Three Months Ended June 30, 2014			
	Cumulative Currency Translation Adjustment	Changes in the Fair Value of Derivatives	Unrecognized Postretirement Benefit Plans	Total
April 1, 2014	\$ 56,903	\$ 2,544	\$ (465,935)	\$ (406,488)
Other comprehensive income (loss) before reclassifications	4,537	(2,511)(a)	(2,730)(c)	(704)
Amount reclassified from accumulated other comprehensive loss	—	(321)(b)	5,944(d)	5,623
Net current-period other comprehensive income	4,537	(2,832)	3,214	4,919
June 30, 2014	<u>\$ 61,440</u>	<u>\$ (288)</u>	<u>\$ (462,721)</u>	<u>\$ (401,569)</u>

- (a) This amount represents \$4,130 of unrealized losses on cash flow hedges, net of tax of \$1,619, that were recognized in Other Comprehensive Loss (see Footnote 4 for additional details).
- (b) This amount represents \$401 of gains on cash flow hedges, net of tax of \$80, 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 \$3,455 of other comprehensive loss, net of tax of \$725, that was recognized in Other Comprehensive Loss.
- (d) This amount represents amortization of prior service credit of \$141 and amortization of actuarial losses of (\$9,164), net of tax of \$3,079, 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).

	Six Months Ended June 30, 2014			
	Cumulative Currency Translation Adjustment	Changes in the Fair Value of Derivatives	Unrecognized Postretirement Benefit Plans	Total
December 31, 2013	\$ 59,660	\$ 1,615	\$ (471,295)	\$(410,020)
Other comprehensive income (loss) before reclassifications	1,780	(1,041)(a)	(3,242)(c)	(2,503)
Amount reclassified from accumulated other comprehensive loss	—	(862)(b)	11,816(d)	10,954
Net current-period other comprehensive income (loss)	1,780	(1,903)	8,574	8,451
June 30, 2014	<u>\$ 61,440</u>	<u>\$ (288)</u>	<u>\$ (462,721)</u>	<u>\$(401,569)</u>

- (a) This amount represents \$1,689 of unrealized losses on cash flow hedges, net of tax of \$648, that were recognized in Other Comprehensive Loss (see Footnote 4 for additional details).
- (b) This amount represents \$1,300 of gains on cash flow hedges, net of tax of \$438, 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 \$4,120 of other comprehensive loss, net of tax of \$878, that was recognized in Other Comprehensive Loss.
- (d) This amount represents amortization of prior service credit of \$283 and amortization of actuarial losses of (\$18,291), net of tax of \$6,192, 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 June 30,		Six months ended June 30,	
	2013	2014	2013	2014
Net income attributable to noncontrolling shareholders' interests	\$ 6,114	\$ 6,576	\$ 12,871	\$ 12,870
Other comprehensive income:				
Currency translation adjustments	(52)	207	1,751	(973)
Comprehensive income attributable to noncontrolling shareholders' interests	<u>\$ 6,062</u>	<u>\$ 6,783</u>	<u>\$ 14,622</u>	<u>\$ 11,897</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 liabilities:

	2013	2014
Reserve at January 1	\$30,139	\$30,853
Additions	9,712	9,772
Payments	(9,323)	(9,358)
Reserve at June 30	<u>\$30,528</u>	<u>\$31,267</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 disablements do occur, it is the Company's and the tire industry's experience that the vast majority of tire failures relate to service-related conditions, which are entirely out of the Company's control – such as failure to maintain proper tire pressure, improper maintenance, road hazard and excessive speed.

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

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

The Company determines its reserves using the number of incidents expected during a year. During the second quarter of 2014, the Company increased its products liability reserve by \$14,535. The addition of another year of self-insured incidents accounted for \$12,331 of this increase. The Company revised its estimates of future settlements for unasserted and premature claims. These revisions decreased the reserve by \$600. Finally, settlements and changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by \$2,804.

During the first six months of 2014, the Company increased its products liability reserve by \$26,462. The addition of another year of self-insured incidents accounted for \$24,662 of this increase. The Company revised its estimates of future settlements for unasserted and premature claims. These revisions decreased the reserve by \$600. Finally, settlements and changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by \$2,400.

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 \$17,705 during the second quarter of 2014 to resolve cases and claims and has paid \$33,259 through the first six months of 2014. 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). The products liability reserve balance at June 30, 2014 totaled \$182,716 (current portion of \$69,891).

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

For the three-month periods ended June 30, 2013 and 2014, products liability expenses totaled \$21,505 and \$22,111, respectively. For the six-month periods ended June 30, 2013 and 2014, products liability expenses totaled \$42,202 and \$40,812, 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. That motion has been fully briefed and on July 9, 2014, the court heard oral arguments. A decision is expected to be issued in the future.

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 these 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 Ohio lawsuits were later consolidated into a single proceeding. 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 *In re Cooper Tire & Rubber Company Shareholder Derivative Litigation*, No. 3:14-cv-00428 (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 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. A purported shareholder of the Company has also submitted a demand to the Company's board of directors that it cause the Company to bring claims against certain of the Company's officers and directors for the matters alleged in the shareholder derivative lawsuits.

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 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 June 30, 2014, the Company recorded income tax expense of \$25,786 (effective rate of 36.6 percent) compared with \$19,642 (effective rate of 32.1 percent) for the comparable period in 2013. For the six-month period ended June 30, 2014, the Company recorded income tax expense of \$48,353 (effective rate of 33.4 percent) compared with \$47,259 (effective rate of 31.2 percent) for the comparable period in 2013. The 2014 quarter and six-month period income tax expense is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. This rate differs from the U.S. federal statutory rate of 35 percent primarily because of the projected mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances. Income tax expense for the current quarter is higher due primarily to increased earnings in both the U.S. and non-U.S. jurisdictions, as well as increased losses in jurisdictions with no tax benefit due to valuation allowances, compared with the same quarter of the prior year. Income tax expense for the six-month period is higher due primarily to increased losses in jurisdictions with no benefit due to valuation allowances compared with the same period in the prior year.

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 \$22,072. In addition, the Company has recorded valuation allowances of \$10,174 relating to non-U.S. net operating losses for a total valuation allowance of \$32,246. 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 June 30, 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.

15. Subsequent Events

On August 6, 2014, the Company entered into an Accelerated Share Repurchase ("ASR") agreement to initiate share repurchases aggregating \$200 million (the "ASR Program"). The Company anticipates that all repurchases under the ASR Program will be completed no later than the final repurchase date in February, 2015, although settlement may be accelerated or delayed under certain circumstances. Acquired shares of Common Stock will be held as treasury shares.

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 June 30			Six months ended June 30		
	2013	% Change	2014	2013	% Change	2014
Revenues:						
North American Tire						
External customers	\$607.1	2.9	\$625.0	\$1,194.0	(2.1)	\$1,168.9
Intercompany	16.1	(11.8)	14.2	31.5	7.3	33.8
	623.2	2.6	639.2	1,225.5	(1.9)	1,202.7
International Tire						
External customers	277.1	(4.8)	263.7	551.9	(6.5)	516.2
Intercompany	76.2	(17.2)	63.1	142.4	(15.3)	120.6
	353.3	(7.5)	326.8	694.3	(8.3)	636.8
Eliminations	(92.4)	(16.3)	(77.3)	(174.0)	(11.3)	(154.4)
Net sales	<u>\$884.1</u>	0.5	<u>\$888.7</u>	<u>\$1,745.8</u>	(3.5)	<u>\$1,685.1</u>
Segment profit (loss)						
North American Tire	\$ 59.2	9.5	\$ 64.8	\$ 130.6	2.2	\$ 133.5
International Tire	29.2	(9.2)	26.5	59.2	(16.2)	49.6
Eliminations	0.1	n/m	(1.6)	1.2	n/m	(1.3)
Unallocated corporate charges	(19.4)	(32.5)	(13.1)	(25.2)	(3.6)	(24.3)
Operating profit	69.1	10.9	76.6	165.8	(5.0)	157.5
Interest expense	(7.2)	(5.6)	(6.8)	(14.3)	(2.8)	(13.9)
Interest income	0.1	200.0	0.3	0.4	100.0	0.8
Other income (expense)	(0.8)	n/m	0.5	(0.2)	n/m	0.5
Income before income taxes	61.2	15.4	70.6	151.7	(4.5)	144.9
Income tax expense	19.6	31.6	25.8	47.2	2.5	48.4
Net Income	41.6	7.7	44.8	104.5	(7.7)	96.5
Noncontrolling shareholders' interests	(6.1)	8.2	(6.6)	(12.9)	—	(12.9)
Net income attributable to Cooper Tire & Rubber Company	<u>\$ 35.5</u>	7.6	<u>\$ 38.2</u>	<u>\$ 91.6</u>	(8.8)	<u>\$ 83.6</u>
Basic earnings per share	<u>\$ 0.56</u>		<u>\$ 0.60</u>	<u>\$ 1.45</u>		<u>\$ 1.32</u>
Diluted earnings per share	<u>\$ 0.55</u>		<u>\$ 0.59</u>	<u>\$ 1.43</u>		<u>\$ 1.30</u>

Consolidated net sales for the three-month period ended June 30, 2014 were \$889 million, an increase of \$5 million from the comparable period one year ago. The increase in net sales for the second quarter of 2014 compared with the second quarter of 2013 was the result of an increase in unit volumes (\$90 million) and favorable exchange rates in the International Tire Operations segment (\$6 million), partially offset by less favorable pricing and mix (\$91 million).

The Company recorded operating profit in the second quarter of 2014 of \$77 million, an increase of \$7 million compared with the second quarter of 2013. Lower raw material costs (\$67 million) and increased unit volumes (\$13 million) were offset by unfavorable pricing and mix (\$85 million). Manufacturing cost efficiencies were \$7 million favorable when compared with the second quarter of 2013, which included \$10 million of costs associated with production curtailments. Selling, general and administrative costs decreased (\$10 million) compared with the second quarter of 2013. Other operating costs, including increased distribution costs, were unfavorable (\$5 million) compared with the same period in 2013.

Consolidated net sales for the six-month period ended June 30, 2014 were \$1,685 million, a decrease of \$61 million from the comparable period one year ago. The decrease in net sales for the first half of 2014 compared with the first half of 2013 was the result of less favorable pricing and mix (\$179 million), partially offset by an increase in unit volumes (\$100 million) and favorable exchange rates in the International segment (\$18 million).

The Company recorded operating profit in the first six months of 2014 of \$157 million, a decrease of \$8 million compared with the first six months of 2013. Unfavorable pricing and mix (\$179 million) was partially offset by lower raw material costs (\$134 million), higher unit volumes (\$22 million) and lower products liability charges (\$1 million). Manufacturing cost efficiencies were \$18 million favorable when compared with the first half of 2013, which included \$10 million of costs associated with production curtailments incurred in the second quarter of 2013. Selling, general and administrative costs decreased (\$4 million) compared with the first six months of 2013. Other operating costs, including increased distribution costs, were unfavorable (\$8 million) compared with the same period in 2013.

The Company experienced decreases in the costs of certain of its principal raw materials in the first half of 2014 compared with the first half 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 \$22 million in the second quarter of both 2014 and 2013. Products liability expenses totaled \$41 million and \$42 million in the first six months of 2014 and 2013, respectively. The change in the liability 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 \$71 million in the second quarter of 2014 (8.0 percent of net sales) and \$81 million in the second quarter of 2013 (9.2 percent of net sales). For the six-month period ended June 30, 2014, selling, general and administrative expenses were \$138 million (8.2 percent of net sales) compared with \$142 million (8.1 percent of net sales) for the comparable period of 2013. The decrease in selling, general and administrative expenses in the second quarter of 2014 is partially attributable to the absence of expenses relating to the then pending merger agreement with a wholly-owned subsidiary of Apollo in the second quarter of 2013. Additionally, professional fees and expenses related to accruals for stock-based liabilities decreased compared with the second quarter of 2013. The year-to-date decrease in selling, general and administrative expenses is primarily attributable to the absence of Apollo transaction-related costs and decreased expenses related to accruals for stock-based liabilities.

Interest expense, interest income and other income remained consistent for both the three-month and six-month periods of 2014 and 2013.

For the quarter ended June 30, 2014, the Company recorded income tax expense of \$26 million (effective rate of 36.6 percent) compared with \$20 million (effective rate of 32.1 percent) for the comparable period in 2013. For the six-month period ended June 30, 2014, the Company recorded income tax expense of \$48 million (effective rate of 33.4 percent) compared with \$47 million (effective rate of 31.2 percent) for the comparable period in 2013. The 2014 quarter and six-month period income tax expense is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. This rate differs from the U.S. federal statutory rate of 35 percent primarily because of the projected mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances. Income tax expense for the current quarter is higher due primarily to increased earnings in both the U.S. and non-U.S. jurisdictions, as well as increased losses in jurisdictions with no tax benefit due to valuation allowances, compared with the same quarter of the prior year. Income tax expense for the six-month period is higher due primarily to increased losses in jurisdictions with no benefit due to valuation allowances compared with the same period in the prior year.

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 June 30			Six months ended June 30		
	2013	Change	2014	2013	Change	2014
(Dollar amounts in millions)						
Net sales	\$623.2	2.6%	\$639.2	\$1,225.5	-1.9%	\$1,202.7
Operating profit	\$ 59.2	9.5%	\$ 64.8	\$ 130.6	2.2%	\$ 133.5
Operating margin	9.5%	.6 points	10.1%	10.7%	.4 points	11.1%
United States unit shipments changes:						
Passenger tires						
Segment		3.5%			3.6%	
RMA members		3.3%			1.8%	
Total Industry		3.3%			4.7%	
Light truck tires						
Segment		20.4%			20.5%	
RMA members		7.1%			6.0%	
Total Industry		4.2%			5.5%	
Total light vehicle tires						
Segment		6.7%			6.8%	
RMA members		3.8%			2.3%	
Total Industry		3.4%			4.8%	
Total segment unit sales change		9.4%			7.4%	

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

Overview

The North American Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. In addition to manufacturing tires in the U.S., the segment has a joint venture manufacturing operation in Mexico, 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 for the second quarter of 2014 increased \$16 million, or 2.6 percent, from the second quarter of 2013. The increase in sales was a result of increased unit volumes (\$59 million), partially offset by unfavorable pricing and mix (\$43 million). Unit shipments for the segment increased 9.4 percent compared with the second quarter of 2013. In the U.S., the segment's unit shipments of total light vehicle tires increased 6.7 percent in the second quarter of 2014 compared with the second quarter of 2013. This increase compares with a 3.8 percent increase in total light vehicle shipments experienced by the members of the Rubber Manufacturers Association ("RMA"), and a 3.4 percent increase in total light vehicle shipments experienced for the total industry (which includes an estimate for non-RMA members).

Net sales of the North American Tire Operations segment for the first six months of 2014 decreased \$23 million, or 1.9 percent, from the first six months of 2013. The decrease in sales was a result of unfavorable pricing and mix (\$113 million), partially offset by increased unit volumes (\$90 million). Unit shipments for the segment increased 7.4 percent compared with the six-month period ended June 30, 2013. In the U.S., the segment's unit shipments of total light vehicle tires increased 6.8 percent in the first half of 2014 compared with the first half of 2013. This increase compares with a 2.3 percent increase in total light vehicle shipments experienced by the members of the RMA, and a 4.8 percent increase in total light vehicle shipments experienced for the total industry.

Operating Profit

Operating profit for the segment increased \$6 million to \$65 million in the second quarter of 2014 compared to the second quarter of 2013. Lower raw material costs (\$35 million) and higher unit volumes (\$8 million) were partially offset by unfavorable pricing and mix (\$41 million). Manufacturing cost efficiencies were \$7 million favorable when compared to the second quarter of 2013, which included \$10 million of costs associated with production curtailments. Selling, general and administrative costs decreased (\$1 million) compared to the second quarter of 2013. Other operating costs, including increased distribution costs, were unfavorable (\$4 million) compared with the same period in 2013.

Operating profit for the segment increased \$3 million to \$133 million in the first six months of 2014 compared with the first six months of 2013. Lower raw material costs (\$86 million), higher unit volumes (\$19 million) and lower products liability charges (\$1 million) were offset by unfavorable pricing and mix (\$112 million). Manufacturing cost efficiencies were \$17 million favorable when compared to the first half of 2013, which included \$10 million of costs associated with production curtailments incurred in the second quarter of 2013. Other operating costs, including increased distribution costs, were unfavorable (\$8 million) compared with the same period in 2013.

The segment's internally calculated raw material index of 199 during the quarter was a decrease of 10.7 percent from the same period of 2013. The raw material index decreased 0.7 percent from the quarter ended March 31, 2014.

International Tire Operations Segment

(Dollar amounts in millions)	Three months ended June 30			Six months ended June 30		
	2013	Change	2014	2013	Change	2014
Net sales	\$353.3	-7.5%	\$326.8	\$694.3	-8.3%	\$636.8
Operating profit	\$ 29.2	-9.2%	\$ 26.5	\$ 59.2	-16.2%	\$ 49.6
Operating margin	8.3%	(.2) points	8.1%	8.5%	(.7) points	7.8%
Unit sales change		5.2%			1.6%	

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 for the second quarter of 2014 decreased \$26 million, or 7.5 percent, from the second quarter of 2013. The decrease in sales was a result of unfavorable pricing and mix (\$50 million), partially offset by increased unit volumes (\$18 million). The segment experienced favorable exchange rates in the second quarter of 2014 (\$6 million).

Net sales of the International Tire Operations segment for the first six months of 2014 decreased \$58 million, or 8.3 percent from the first six months of 2013. The decrease in sales was a result of unfavorable pricing and mix (\$87 million), partially offset by increased unit volumes (\$11 million). The segment experienced favorable exchange rates in the first half of 2014 (\$18 million).

Operating Profit

Operating profit for the segment decreased \$3 million to \$26 million in the second quarter of 2014 from the second quarter of 2013. Unfavorable pricing and mix (\$46 million) and unfavorable manufacturing efficiencies (\$1 million) were partially offset by lower raw material costs (\$37 million), increased unit volumes (\$5 million) and decreased selling, general and administrative costs (\$2 million).

Operating profit for the segment decreased \$10 million to \$50 million in the first six months of 2014 from the first six months of 2013. Unfavorable pricing and mix (\$76 million) was partially offset by lower raw material costs (\$59 million), increased unit volumes (\$3 million), decreased selling, general and administrative costs (\$3 million) and favorable manufacturing efficiencies (\$1 million).

Outlook for Company

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.

Second quarter raw material costs were down by approximately 1 percent from the first quarter of 2014. Management anticipates third quarter raw material costs will be roughly flat sequentially compared to the second quarter. The long-term raw material outlook is for costs to generally trend higher with periods of volatility.

The Company continues to invest in the business and expects capital expenditures for 2014 to range from \$175 million to \$185 million.

The Company expects its effective tax rate for 2013 will most likely be between 30 percent and 35 percent.

The Company continues to be cautious about volumes as the global tire markets remain highly competitive and overall economic conditions continue to show modest improvement. The Company remains confident that its transformed business model and continued solid execution of its strategic plan will position it to perform well in the future. The Company continues to expect to meet or exceed industry unit volume growth in its largest markets this year.

Liquidity and Capital Resources

Generation and uses of cash – Operating activities provided \$10 million of cash during the first six months of 2014 compared to a use of cash of \$14 million during the first six months of 2013. Accounts receivable balances have increased as a 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 six months of 2014 as Company raw material purchases have increased.

Net cash used in investing activities during the first six months of 2013 and 2014 reflect capital expenditures of \$93 million and \$76 million, respectively.

During the first six months of 2013, the Company's subsidiaries issued \$14 million of short-term notes and during the first six months of 2014, the Company's subsidiaries issued \$3 million of short-term notes. In both 2013 and 2014, the Company's subsidiaries borrowed additional funds using long-term debt and repaid \$10 million and \$13 million of maturing long-term debt, respectively.

Dividends paid on the Company's common shares in each of the first six months of 2013 and 2014 were \$13 million. During the first six months of 2013 and 2014, the Company paid \$10 million and \$3 million in dividends to noncontrolling shareholders, respectively.

Available cash, credit facilities and contractual commitments – At June 30, 2014, the Company had cash and cash equivalents of \$327 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 June 30, 2014 was \$287 million.

The Company's affiliated operations in Asia have renewable credit lines that provide up to \$348 million of borrowings and do not contain significant financial covenants. The additional borrowing capacity on the Asian credit lines totaled \$295 million at June 30, 2014.

The Company believes that its cash and cash equivalents, 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, dividend goals, and the \$200 million ASR entered into on August 6, 2014. 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 June 30, 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 \$175 to \$185 million range.

The following table summarizes long-term debt at June 30, 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>
Consolidated Subsidiaries	
4.269% unsecured notes due in 2014	4.9
4.274% to 4.702% unsecured notes due in 2015	8.5
4.00% to 6.15% unsecured notes due in 2016	13.4
4.40% to 6.15% unsecured notes due in 2017	12.8
4.78% and 7.62% notes due in 2016	3.7
	<u>43.3</u>
Total debt	341.9
Less current maturities	15.7
	<u><u>\$326.2</u></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 losses because an average cost would not be meaningful since the products liability claims faced by the Company are unique and widely variable, and accordingly, the resolutions of those claims have an enormous amount of variability. The costs have ranged from zero dollars to \$33 million in one case with no “average” that is meaningful. No specific accrual is made for individual unasserted claims or for premature claims, asserted claims where the minimum information needed to evaluate the probability of liability is not yet known. However, an accrual for such claims based, in part, on management’s expectations for future litigation activity and the settled claims history is maintained. Because of the speculative nature of litigation in the United States, the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The Company’s experience has demonstrated that its estimates have been reasonably accurate and, on average, cases are resolved for amounts close to the reserves established. However, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

Forward-Looking Statements

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

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

- 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;
- a variety of factors, including market conditions, may affect the actual amount expended on stock repurchases under the ASR program; changes in the Company’s results of operations or financial conditions or strategic priorities may lead to a modification, suspension or cancellation of its ASR program, which may occur at any time; the Company’s ability to consummate the transactions contemplated by the ASR agreement;
- the risks associated with doing business outside of the United States;
- the failure to develop technologies, processes or products needed to support consumer demand;
- a disruption in, or failure of, the Company’s information technology systems, including those related to cybersecurity, could adversely affect the Company’s business operations and financial performance;
- 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;
- 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 ("SEC").

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at June 30, 2014, from those detailed in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2013.

Item 4. CONTROLS AND PROCEDURES

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

The Company, under the supervision and with the participation of management, including the CEO and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as of June 30, 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 June 30, 2014 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are 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 June 30, 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. That motion has been fully briefed and on July 9, 2014, the court heard oral arguments. A decision is expected to be issued in the future.

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 these 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 Ohio lawsuits were later consolidated into a single proceeding. 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 *In re Cooper Tire & Rubber Company Shareholder Derivative Litigation*, No. 3:14-cv-00428 (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 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. A purported shareholder of the Company has also submitted a demand to the Company's board of directors that it cause the Company to bring claims against certain of the Company's officers and directors for the matters alleged in the shareholder derivative lawsuits.

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 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.

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 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.

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.

Antidumping and countervailing duty investigations into certain passenger and light truck tires from the PRC were initiated on July 14, 2014. It is too early to determine the outcome of these investigations and what impact, if any, they will have on the Company.

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

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

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

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

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

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

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

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

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

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

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.

A disruption in, or failure of, the Company's information technology systems, including those related to cybersecurity, could adversely affect the Company's business operations and financial performance.

The Company relies on the accuracy, capacity and security of its information technology systems across all of its major business functions, including its research and development, manufacturing, sales, financial and administrative functions. Despite the security measures that the Company has implemented, including those related to cybersecurity, its systems could be breached or damaged by computer viruses, natural or man-made incidents or disasters or unauthorized physical or electronic access. A system failure, accident or security breach could result in business disruption, theft of its intellectual property, trade secrets or customer information and unauthorized access to personnel information. To the extent that any system failure, accident or security breach results in disruptions to its operations or the theft, loss or disclosure of, or damage to, its data or confidential information, the Company's reputation, business, results of operations, cash flows and financial condition could be materially adversely affected. In addition, the Company may be required to incur significant costs to protect against and, if required, remediate the damage caused by such disruptions or system failures in the future.

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

The Company's operations depend on maintaining a skilled workforce and any interruption of its workforce due to shortages of skilled technical, production or professional workers, work disruptions, or other events could interrupt the Company's operations and affect its operating results. Further, a significant number of the Company's employees are currently represented by unions. If the Company is unable to resolve labor disputes or if there are work stoppages or other work disruptions, the Company's business and operating results could suffer. See also related comments under "The Company is facing risks related to 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."

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (10.1) 2014 Incentive Compensation Plan is incorporated herein by reference from Appendix A to the Company's Proxy Statement dated April 10, 2014*
- (31.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (31.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32) Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (101.INS) XBRL Instance Document
- (101.SCH) XBRL Taxonomy Extension Schema Document
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase Document
- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document
- (101.LAB) XBRL Taxonomy Extension Label Linkbase Document
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document

* Indicates management contracts or compensatory plans or arrangements.

SIGNATURES

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

COOPER TIRE & RUBBER COMPANY

/s/ B. E. Hughes

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

/s/ R. W. Huber

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

August 7, 2014

(Date)

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: August 7, 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: August 7, 2014

/s/ Bradley E. Hughes

Bradley E. Hughes
Senior 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 June 30, 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: August 7, 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.