

Section 1: 10-Q (10-Q)

**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 March 31, 2018

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, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Number of shares of common stock of registrant outstanding as of April 26, 2018: 50,553,505

Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	Three Months Ended March 31,	
	2018	2017
Net sales	\$ 601,496	\$ 643,025
Cost of products sold	517,011	524,439
Gross profit	84,485	118,586
Selling, general and administrative expense	58,031	60,591
Operating profit	26,454	57,995
Interest expense	(7,691)	(7,827)
Interest income	2,315	1,802
Other pension and postretirement benefit expense	(6,986)	(9,325)
Other non-operating expense	(1,658)	(235)
Income before income taxes	12,434	42,410
Provision for income taxes	3,451	13,029
Net income	8,983	29,381
Net income (loss) attributable to noncontrolling shareholders' interests	698	(1,180)
Net income attributable to Cooper Tire & Rubber Company	\$ 8,285	\$ 30,561
Earnings per share:		
Basic	\$ 0.16	\$ 0.58
Diluted	\$ 0.16	\$ 0.57
Cash dividends declared per share	\$ 0.105	\$ 0.105

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Net income	\$ 8,983	\$ 29,381
Other comprehensive income (loss):		
Foreign currency translation adjustments	24,870	15,388
Financial instruments:		
Change in the fair value of derivatives	2,139	(399)
Income tax (provision) benefit on derivative instruments	(588)	153
Financial instruments, net of tax	1,551	(246)
Postretirement benefit plans:		
Amortization of actuarial loss	9,345	10,591
Amortization of prior service credit	(135)	(141)
Income tax provision on postretirement benefit plans	(2,210)	(3,719)
Foreign currency translation effect	(2,900)	(865)
Postretirement benefit plans, net of tax	4,100	5,866
Other comprehensive income	30,521	21,008
Comprehensive income	39,504	50,389
Less: comprehensive income attributable to noncontrolling shareholders' interests	4,643	1,691
Comprehensive income attributable to Cooper Tire & Rubber Company	\$ 34,861	\$ 48,698

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 213,091	\$ 371,684
Notes receivable	66,073	13,753
Accounts receivable, less allowances of \$7,840 at 2018 and \$7,570 at 2017	499,130	528,250
Inventories:		
Finished goods	448,019	365,672
Work in process	34,878	31,000
Raw materials and supplies	128,627	115,085
	<u>611,524</u>	<u>511,757</u>
Other current assets	63,921	63,063
Total current assets	<u>1,453,739</u>	<u>1,488,507</u>
Property, plant and equipment:		
Land and land improvements	54,182	52,683
Buildings	312,835	311,199
Machinery and equipment	1,932,543	1,890,210
Molds, cores and rings	232,649	220,528
	<u>2,532,209</u>	<u>2,474,620</u>
Less: accumulated depreciation	1,553,715	1,507,873
Property, plant and equipment, net	<u>978,494</u>	<u>966,747</u>
Goodwill	56,056	54,613
Intangibles, net of accumulated amortization of \$98,005 at 2018 and \$93,353 at 2017	126,143	133,256
Deferred income tax assets	57,057	58,665
Other assets	7,493	6,137
Total assets	<u>\$ 2,678,982</u>	<u>\$ 2,707,925</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	\$ 41,043	\$ 39,450
Accounts payable	268,556	277,060
Accrued liabilities	244,371	280,666
Income taxes payable	5,098	6,954
Current portion of long-term debt	1,446	1,413
Total current liabilities	<u>560,514</u>	<u>605,543</u>
Long-term debt	295,221	295,987
Postretirement benefits other than pensions	256,188	256,888
Pension benefits	218,280	219,534
Other long-term liabilities	144,753	144,217
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	18,278	20,740
Retained earnings	2,397,224	2,394,372
Accumulated other comprehensive loss	(451,902)	(478,478)
	<u>2,051,450</u>	<u>2,024,484</u>
Less: common shares in treasury at cost		

(37,244,438 at 2018 and 36,908,553 at 2017)	(910,727)	(897,388)
Total parent stockholders' equity	1,140,723	1,127,096
Noncontrolling shareholders' interests in consolidated subsidiaries	63,303	58,660
Total equity	1,204,026	1,185,756
Total liabilities and equity	\$ 2,678,982	\$ 2,707,925

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Operating activities:		
Net income	\$ 8,983	\$ 29,381
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	36,424	34,749
Stock-based compensation	1,280	1,283
Change in LIFO inventory reserve	(9,900)	14,438
Amortization of unrecognized postretirement benefits	9,210	10,450
Changes in operating assets and liabilities:		
Accounts and notes receivable	(14,955)	17,546
Inventories	(81,156)	(104,851)
Other current assets	(5,532)	(2,069)
Accounts payable	13,063	(6,342)
Accrued liabilities	(34,778)	(44,570)
Other items	58	(17,989)
Net cash used in operating activities	<u>(77,303)</u>	<u>(67,974)</u>
Investing activities:		
Additions to property, plant and equipment and capitalized software	(59,722)	(44,602)
Proceeds from the sale of assets	133	11
Net cash used in investing activities	<u>(59,589)</u>	<u>(44,591)</u>
Financing activities:		
Net payments on short-term debt	(5,356)	(16,608)
Repayments of long-term debt	(809)	(792)
Payment of financing fees	(1,230)	—
Repurchase of common stock	(15,565)	(17,799)
Payments of employee taxes withheld from shared-based awards	(1,891)	(6,429)
Payment of dividends to Cooper Tire & Rubber Company stockholders	(5,334)	(5,543)
Issuance of common shares related to stock-based compensation	270	3,596
Net cash used in financing activities	<u>(29,915)</u>	<u>(43,575)</u>
Effects of exchange rate changes on cash	1,399	2,720
Net change in cash, cash equivalents and restricted cash	<u>(165,408)</u>	<u>(153,420)</u>
Cash, cash equivalents and restricted cash at beginning of year	392,306	524,249
Cash, cash equivalents and restricted cash at end of period	<u>\$ 226,898</u>	<u>\$ 370,829</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

Note 1. Basis of Presentation and Consolidation

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

There is a year-round demand for the Company's tires, but sales of light vehicle replacement tires are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of June through November. Operating results for the three month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ended December 31, 2018.

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.

Truck and Bus Tire Tariffs

Antidumping and countervailing duty investigations into certain truck and bus tires imported from the People's Republic of China ("PRC") into the United States were initiated on January 29, 2016. The preliminary determinations announced in both investigations were affirmative and resulted in the imposition of significant additional duties from each. The Company incurred expense of \$22,042 over the final seven months of the year ended December 31, 2016 related to these additional duties. On February 22, 2017, the United States ("U.S.") International Trade Commission determined the U.S. market had not suffered material injury because of imports of truck and bus tires from China. As a result of this decision, preliminary antidumping and countervailing duties from Chinese truck and bus tires imported subsequent to the preliminary determination were not to be collected and any amounts previously paid have been refunded by U.S. Customs and Border Protection. Further, prospective imports of truck and bus tires from the PRC are not subject to these additional duties. In the first quarter of 2017, the Company reversed the previously expensed preliminary duties of \$22,042 due to the decision by the U.S. International Trade Commission. This amount was recorded as a reduction of Cost of products sold in the Condensed Consolidated Statement of Income for the three month period ended March 31, 2017.

North American Distribution Center

On January 22, 2017, a tornado hit the Company's leased Albany, Georgia distribution center, causing damage to the Company's assets and disrupting certain operations. Insurance, less applicable deductibles, covers the repair or replacement of the Company's assets that suffered loss or damage, and the Company is working closely with its insurance carriers and claims adjusters to ascertain the full amount of insurance proceeds due to the Company as a result of the damages and the loss the Company suffered. The Company's insurance policies also provide coverage for interruption to its business, including lost profits, and reimbursement for other expenses and costs that have been incurred relating to the damages and losses suffered. In the first quarter of 2017, the Company incurred expenses of \$6,806 related to damages caused by the tornado, including the disposal of damaged tires, freight to move product to other warehouses, professional fees to secure and maintain the site and for the rental of additional storage facilities. For the full year 2017, the Company incurred direct expenses of \$12,569, less proceeds of \$7,000 recovered from insurance. In the first quarter of 2018, the Company recorded insurance recoveries of \$3,809, while incurring direct costs of \$870. These amounts were recorded as a component of Cost of products sold in the Condensed Consolidated Statements of Income for the three month periods ended March 31, 2018 and 2017 and the year ended December 31, 2017. At this time, the full amount of insurance recoveries cannot be estimated, and accordingly, no additional amounts have been recorded as of March 31, 2018.

Accounting Pronouncements

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

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

Accounting Pronouncements – Recently Adopted

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (the “new revenue standard”), which supersedes previous revenue recognition guidance, including industry-specific guidance, and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. The Company adopted the new revenue standard as of January 1, 2018 using the modified retrospective transition method. See Note 2 for additional details.

Pensions and Postretirement Benefits Other than Pensions

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which requires changes to the income statement presentation of net periodic benefit cost. The service cost component of net periodic benefit cost will continue to be classified in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component and outside of operating profit. In addition, the new standard will allow only the service cost component to be eligible for capitalization, when applicable. The Company adopted the new standard as of January 1, 2018 and revised prior periods in accordance with the standard. See Note 8 for additional details.

Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash," which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. Therefore, amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows. The new standard also requires companies to disclose the nature of the restriction on restricted cash. The Company adopted the new standard as of January 1, 2018 and revised prior periods in accordance with the standard. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets to the total of the same such amounts reported within the Condensed Consolidated Statements of Cash Flows:

	March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited)	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 213,091	\$ 365,046	\$ 371,684	\$ 504,423
Restricted cash included in Other current assets	11,683	4,715	19,200	18,499
Restricted cash included in Other assets	2,124	1,068	1,422	1,327
Total cash, cash equivalents and restricted cash	<u>\$ 226,898</u>	<u>\$ 370,829</u>	<u>\$ 392,306</u>	<u>\$ 524,249</u>

Restricted cash is comprised primarily of funds within a voluntary employees' beneficiary trust restricted to the future payment of employee benefit obligations and amounts on deposit to collateralize certain credit arrangements in the PRC.

Accounting Pronouncements – To Be Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases,” which requires balance sheet recognition of lease liabilities and right-of-use assets for most leases having terms of twelve months or longer. Application of the standard, which should be applied using a modified retrospective approach, is required for the annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The FASB issued multiple amendments to the standard which provided clarification, additional guidance, practical expedients and other improvements to ASU 2016-02. The Company is currently evaluating the impact of the new standard, including optional practical expedients, and assessing its existing lease portfolio in order to assess the impact on its condensed consolidated financial statements.

Goodwill

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment," which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The standard requires goodwill impairment to be measured as the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. Application of the standard, which should be applied prospectively, is required for the annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities," which expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. Adoption of the new standard is required for the annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which provides for an election to reclassify stranded tax effects within accumulated other comprehensive income/(loss) to retained earnings due to the U.S. federal corporate income tax rate change in the Tax Cuts and Jobs Act of 2017. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements and has not yet determined whether it will make the election to reclassify its stranded tax effects.

Note 2. Revenue from Contracts with Customers

Accounting policy

On January 1, 2018, the Company adopted the new revenue standard using the modified retrospective method applied to contracts which were not completed as of January 1, 2018. Results from reporting periods beginning after January 1, 2018 are presented under the new revenue standard while prior period amounts are not adjusted and continue to be reported under previous revenue recognition guidance. The new revenue standard requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In accordance with the new revenue standard, revenue is measured based on the consideration specified in a contract with a customer, and excludes any sales incentives or rebates. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. This occurs with shipment or delivery, depending on the terms of the underlying contract. The transaction price will include estimates of variable consideration to the extent it is probable that a significant reversal of revenue recognized will not occur. At the time of sale, the Company estimates provisions for different forms of variable consideration (discounts and rebates) based on historical experience, current conditions and contractual obligations, as applicable. Payment terms with customers vary by region and customer, but are generally 30-90 days. The Company does not have significant financing components or significant payment terms. Incidental items that are immaterial in the context of the contract are expensed as incurred.

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

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

Nature of goods and services

The following is a description of principal activities, separated by reportable segments, from which the Company generates its revenue.

The Company's reportable segments have the following revenue characteristics:

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

See Note 15 - Business Segments for additional details.

Disaggregation of revenue

In the following table, revenue is disaggregated by major market channel for the three month period ended March 31, 2018:

	Americas	International	Eliminations	Total
Light vehicle ⁽¹⁾	\$ 433,384	\$ 121,341	\$ (24,950)	\$ 529,775
Truck and bus radial	41,461	26,589	(20,190)	47,860
Other ⁽²⁾	10,547	13,314	—	23,861
Net sales	<u>\$ 485,392</u>	<u>\$ 161,244</u>	<u>\$ (45,140)</u>	<u>\$ 601,496</u>

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

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

Contract balances

The following table provides information about contract liabilities from contracts with customers.

	March 31, 2018	December 31, 2017
Contract liabilities	\$ 1,609	\$ 1,111

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

Significant changes in the contract liabilities balance during the period are as follows:

	Deferred revenue
Deferred revenue at beginning of year	\$ 1,111
Increases due to cash received from customers	3,111
Decreases due to recognition of revenue	(2,613)
Deferred revenue at March 31, 2018	<u>\$ 1,609</u>

Transaction price allocated to remaining performance obligations

For the three month period ended March 31, 2018, revenue recognized from performance obligations related to prior periods was not material.

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

The Company applies the practical expedient in ASC 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Changes in accounting policies

The Company adopted ASC 606 "Revenue from Contracts with Customers" with a date of initial application of January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition as detailed below. The guidance has been applied to all contracts at the date of initial application. There were no significant changes to the Company's accounting for revenue following the adoption of the new revenue standard.

Impacts on financial statements

Aside from the enhanced disclosures, adoption of the new revenue standard had no impact on the Company's Condensed Consolidated Statement of Income.

The Company has reclassified its volume and customer rebate programs from a contra-asset included within Accounts receivable to a liability within Accrued liabilities on the Condensed Consolidated Balance Sheets. The table below summarizes the impact to the balance sheet as of December 31, 2017:

	As Adjusted	Effect of Change	Previously Reported
Accounts receivable, less allowances	\$ 528,250	\$ 100,190	\$ 428,060
Accrued liabilities	280,666	100,190	180,476

Note 3. GRT Acquisition

On January 4, 2016, the Company announced that it had entered into an agreement to purchase a majority of China-based Qingdao Ge Rui Da Rubber Co., Ltd. ("GRT"). In the first quarter of 2016, the Company made a down payment in the amount of \$5,929 for this transaction in accordance with the purchase agreement. The down payment was fully refundable in the event that the transaction did not close and did not provide the Company with any power to direct the activities of the existing GRT entity prior to the transaction closing. After the transaction closed on December 1, 2016, the Company owned 65 percent of GRT. Based on the Company's ownership percentage and corresponding control of voting rights, the results of GRT and 100 percent of its assets and liabilities are consolidated from the date of the closing. GRT serves as a global source of truck and bus radial tire production for the Company. Passenger car radial tires may also be manufactured at the facility in the future.

The down payment of \$5,929, as well as an additional \$8,090 at the time of closing, were paid to the non-controlling shareholder of GRT. In December 2016, the Company contributed an additional \$35,842 to GRT to purchase additional shares issued by GRT, as well as to fund working capital requirements. The Company contributed \$14,570 in the first quarter of 2017, and an additional \$22,125 to GRT in the second quarter of 2017 to fund working capital requirements. In total, the Company has invested \$86,556 related to GRT, with \$14,019 paid directly to a third party and the remainder invested in GRT.

The GRT acquisition has been accounted for as a purchase transaction. The total consideration has been allocated to the assets acquired, liabilities assumed and noncontrolling shareholder interest based on their estimated fair values at December 1, 2016. The excess purchase price over the estimated fair value of the net assets acquired has been allocated to goodwill. Goodwill consists of anticipated growth opportunities for GRT and is recorded in the Asia Operations segment, which is included in the International Tire Segment. Goodwill is not deductible for federal income tax purposes.

The following table summarizes the allocations of the fair values of the assets acquired and liabilities assumed, as adjusted. The originally reported amounts were provisional and were based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed on December 1, 2016, translated into U.S. dollars at the exchange rate on that date. Subsequent to December 1, 2016, the valuation was completed and adjustments were made to the allocations of the fair value of the assets acquired and liabilities assumed from the GRT acquisition.

Assets	As Originally		As Adjusted
	Reported	Adjustments	
Cash	\$ 8,091	\$ —	\$ 8,091
Accounts receivable	2,844	—	2,844
Notes receivable	3,050	—	3,050
Inventory	7,983	485	8,468
Other current assets	981	—	981
Property, plant & equipment	46,712	829	47,541
Intangible assets	7,412	16	7,428
Other long-term assets	289	—	289
Goodwill	33,861	(611)	33,250
Liabilities			
Accounts payable	(61,570)	(719)	(62,289)
Notes payable	(10,122)	—	(10,122)
Accrued liabilities	(2,866)	—	(2,866)
Long-term debt	(3,383)	—	(3,383)
Other long-term liabilities	(940)	—	(940)
	\$ 32,342	\$ —	\$ 32,342
Noncontrolling shareholder interest	(18,323)	—	(18,323)
Cooper Tire & Rubber Company consideration	\$ 14,019	\$ —	\$ 14,019

The Company has determined that the nonrecurring fair value measurements related to each of these assets and liabilities rely primarily on Company-specific inputs and the Company's assumptions about the use of the assets and settlement of liabilities, as observable inputs are not available and, as such, reside within Level 3 of the fair value hierarchy as defined in Note 6. The Company utilized a third party to assist in the fair value determination of certain components of the purchase price allocation, namely property, plant and equipment and the non-controlling shareholder interest. The valuation of property, plant and equipment was developed using primarily the cost approach. The fair value of the non-controlling shareholder interest was determined based upon internal and external inputs considering various relevant market transactions and discounted cash flow valuation methods, among other factors.

Note 4. Earnings Per Share

Basic earnings 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:

	Three Months Ended March 31,	
	2018	2017
Numerator		
Numerator for basic and diluted earnings per share - Net income attributable to common stockholders	\$ 8,285	\$ 30,561
Denominator		
Denominator for basic earnings per share - weighted average shares outstanding	50,838	52,835
Effect of dilutive securities - stock options and other stock units	341	587
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	51,179	53,422
Earnings per share:		
Basic	\$ 0.16	\$ 0.58
Diluted	\$ 0.16	\$ 0.57

All options to purchase shares of the Company's common stock were included in the computation of diluted earnings per share as the options' exercise prices were less than the average market price of the common shares at both March 31, 2018 and 2017.

Note 5. Inventories

Inventory costs are determined using the last-in, first-out ("LIFO") method for substantially all U.S. inventories. The current cost of the U.S. inventories under the first-in, first-out ("FIFO") method was \$485,842 and \$415,640 at March 31, 2018 and December 31, 2017, respectively. These FIFO values have been reduced by approximately \$78,194 and \$88,094 at March 31, 2018 and December 31, 2017, respectively, to arrive at the LIFO value reported on the Condensed Consolidated Balance Sheets. The remaining inventories have been valued under the FIFO method. All LIFO inventories are stated at the lower of cost or market. All other inventories are stated at the lower of cost or net realizable value.

Note 6. Fair Value Measurements

Derivative financial instruments are utilized by the Company to reduce foreign currency exchange risks. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes. The derivative financial instruments include non-designated and cash flow hedges of foreign currency exposures. The change in values of the non-designated foreign currency hedges offset the exchange rate fluctuations related to assets and liabilities recorded on the consolidated balance sheets. The cash flow hedges offset exchange rate fluctuations on the foreign currency-denominated intercompany loans and forecasted cash flows. The Company presently hedges exposures in the Euro, Canadian dollar, British pound sterling, Swiss franc, Swedish krona, Norwegian krone, Mexican peso, Chinese yuan and Serbian dinar generally for transactions expected to occur within the next 12 months. Additionally, the Company utilizes cash flow hedges that hedge already recognized intercompany loans with maturities of up to four years. The notional amount of these foreign currency derivative instruments at March 31, 2018 and December 31, 2017 was \$194,889 and \$134,530, respectively. The counterparties to each of these agreements are major commercial banks.

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

Foreign currency forward contracts are also used to hedge variable cash flows associated with forecasted sales and purchases denominated in currencies that are not the functional currency of certain entities. The forward contracts have maturities of less than twelve months pursuant to the Company's policies and hedging practices. These forward contracts meet the criteria for and have been designated as cash flow hedges. Accordingly, the effective portion of the change in fair value of such forward contracts (approximately \$(1,431) and \$(2,640) as of March 31, 2018 and December 31, 2017, respectively) are recorded as a separate component of stockholders' equity in the accompanying Condensed Consolidated Balance Sheets and reclassified into earnings as the hedged transactions occur.

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

The Company assesses hedge effectiveness, prospectively and retrospectively, based on regression of the change in foreign currency exchange rates. Time value of money is included in effectiveness testing. The Company measures ineffectiveness on a trade by trade basis, using the hypothetical derivative method. Any hedge ineffectiveness is recorded in the Condensed Consolidated Statements of Income in the period in which the ineffectiveness occurs.

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

	March 31, 2018	December 31, 2017
Assets/(liabilities)		
Designated as hedging instruments:		
Gross amounts recognized	\$ (2,733)	\$ (2,808)
Gross amounts offset	1,302	168
Net amounts	\$ (1,431)	\$ (2,640)
Not designated as hedging instruments:		
Gross amounts recognized	(577)	(684)
Gross amounts offset	149	97
Net amounts	\$ (428)	\$ (587)
Net amounts presented:		
Other current assets (accrued liabilities)	\$ 675	\$ (1,893)
Other long-term liabilities	\$ (2,534)	\$ (1,334)

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

<u>Derivatives Designated as Cash Flow Hedges</u>	Three Months Ended March 31,	
	2018	2017
Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion)	\$ 646	\$ (389)
Amount of (Loss) Gain Reclassified from Cumulative Other Comprehensive Loss into Income (Effective Portion)	(1,493)	10

<u>Derivatives not Designated as Hedging Instruments</u>	Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives Three Months Ended March 31,	
		2018	2017
Foreign exchange contracts	Other non-operating expense	\$ (2,281)	\$ (646)

For foreign exchange hedges of forecasted sales and purchases designated as effective, the Company reclassifies the gain (loss) from Other comprehensive income into Net sales and the ineffective portion is recorded directly into Other non-operating income (expense).

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

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

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

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

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

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

The valuation of foreign currency derivative instruments was determined using widely accepted valuation techniques. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs, including forward points. The Company incorporated credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Although the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as current credit ratings, to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2018 and December 31, 2017, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result,

the Company determined that its derivative valuations in their entirety were to be classified in Level 2 of the fair value hierarchy.

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

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017:

	March 31, 2018			
	Total Assets (Liabilities)	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Foreign Currency Derivative Instruments	\$ (1,859)	\$ —	\$ (1,859)	\$ —
Stock-based Liabilities	\$ (14,602)	\$ (14,602)	\$ —	\$ —
	December 31, 2017			
	Total Assets (Liabilities)	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Foreign Currency Derivative Instruments	\$ (3,227)	\$ —	\$ (3,227)	\$ —
Stock-based Liabilities	\$ (16,713)	\$ (16,713)	\$ —	\$ —

The fair market value of Cash and cash equivalents, Notes receivable, Restricted cash included in Other current assets, Restricted cash included in Other assets, Notes payable and Current portion of long-term debt at March 31, 2018 and December 31, 2017 are equal to their corresponding carrying values as reported on the Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017, respectively. Each of these classes of assets and liabilities is classified as Level 1 within the fair value hierarchy.

The fair market value of Long-term debt is \$324,142 and \$329,329 at March 31, 2018 and December 31, 2017, respectively, and is classified within Level 1 of the fair value hierarchy. The carrying value of Long-term debt is \$295,221 and \$295,987 as reported on the Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017, respectively.

Note 7. Income Taxes

For the three month period ended March 31, 2018, the Company recorded a provision for income taxes of \$3,451 (effective rate of 27.8 percent) compared with \$13,029 (effective rate of 30.7 percent) for the comparable period in 2017. The 2018 three month period provision for income taxes is calculated using forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. The effective tax rate for the three month period ended March 31, 2018 differs from the U.S. federal statutory rate of 21 percent primarily due to additional liability for unrecognized tax benefits recorded during the quarter, the projected mix of earnings in international jurisdictions with differing tax rates, and jurisdictions where valuation allowances are recorded.

At December 31, 2017, as a result of the U.S. Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017 and in conjunction with guidance set forth under SAB 118, the Company recorded provisional amounts both for the impact of remeasurement on its U.S. deferred tax assets to the new U.S. statutory rate of 21% and for the mandatory Transition Tax on unrepatriated foreign earnings. At March 31, 2018, the Company has not yet completed its accounting for the tax effect of these elements of the Tax Act and as such, adjustments to these provisional amounts have not been made.

The Tax Act also subjects a U.S. parent shareholder to current tax on its global intangible low-taxed income ("GILTI"). At December 31, 2017, a provisional estimate under SAB 118 could not be made and the Company had not yet elected an accounting policy to either recognize deferred taxes for basis differences expected to reverse as GILTI or to record GILTI as a period cost when incurred. Due to the complexity of the GILTI provisions, the Company continues to evaluate the impact of GILTI and has not yet determined its accounting policy; however, at March 31, 2018, a reasonable estimate of GILTI related to current year operations has been made and included in the annual effective tax rate as a period cost. The Company did not record additional GILTI related to basis differences.

The Company continues to maintain a valuation allowance pursuant to ASC 740, "Accounting for Income Taxes," against portions of its U.S. and non-U.S. deferred tax assets at March 31, 2018, as it cannot assure the future realization of the associated tax benefits prior to their reversal or expiration. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a loss carryforward by a valuation allowance of \$1,413. In addition, the Company has recorded valuation allowances of \$30,007 relating to non-U.S. net operating losses and other deferred tax assets for a total valuation allowance of \$31,420. In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when the associated deferred tax assets are deemed to be realizable.

The Company maintains an ASC 740-10, "Accounting for Uncertainty in Income Taxes," liability for unrecognized tax benefits for permanent and temporary differences. At March 31, 2018, the Company's liability, exclusive of penalty and interest, totals approximately \$2,787. The Company accrued additional unrecognized tax benefits, including penalty and interest, during the quarter ended March 31, 2018. Based upon the outcome of tax examinations, judicial proceedings, or expiration of statutes of limitations, it is possible that the ultimate resolution of the Company's unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities.

The Company and its subsidiaries are subject to income tax examination in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company has effectively settled U.S. federal tax examinations for years before 2014 and state and local examinations for years before 2013, with limited exceptions. Non-U.S. subsidiaries of the Company are no longer subject to income tax examinations in major foreign taxing jurisdictions for years prior to 2007. The income tax returns of various subsidiaries in various jurisdictions are currently under examination and it is possible that these examinations will conclude within the next twelve months. However, it is not possible to estimate net increases or decreases to the Company's unrecognized tax benefits during the next twelve months.

Note 8. Pensions and Postretirement Benefits Other than Pensions

The following tables disclose the amount of net periodic benefit costs for the three months ended March 31, 2018 and 2017 for the Company's defined benefit plans and other postretirement benefits:

	Pension Benefits - Domestic	
	Three Months Ended	
	March 31,	
	2018	2017
Components of net periodic benefit cost:		
Service cost	\$ 2,580	\$ 2,465
Interest cost	9,210	9,813
Expected return on plan assets	(13,498)	(13,515)
Amortization of actuarial loss	8,235	9,281
Net periodic benefit cost	\$ 6,527	\$ 8,044

	Pension Benefits - International	
	Three Months Ended	
	March 31,	
	2018	2017
Components of net periodic benefit cost:		
Service cost	\$ —	\$ —
Interest cost	2,906	2,770
Expected return on plan assets	(3,155)	(2,707)
Amortization of actuarial loss	1,110	1,310
Net periodic benefit cost	\$ 861	\$ 1,373

	Other Postretirement Benefits	
	Three Months Ended	
	March 31,	
	2018	2017
Components of net periodic benefit cost:		
Service cost	\$ 487	\$ 501
Interest cost	2,313	2,515
Amortization of prior service credit	(135)	(141)
Net periodic benefit cost	<u>\$ 2,665</u>	<u>\$ 2,875</u>

As discussed in Note 1, the Company retrospectively applied the adoption of ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" in the first quarter of 2018. The effect of the retrospective presentation change related to the net periodic cost of the Company's defined benefit plans and other postretirement benefits on the Company's Condensed Consolidated Statement of Income for the three month period ended March 31, 2017 was as follows:

	As Adjusted	Effect of change			Previously Reported
		Americas	International	Corporate	
Cost of products sold	\$ 524,439	\$ 7,295	\$ 1,373	\$ —	\$ 533,107
Selling, general and administrative expense	60,591	296	—	361	61,248
Other pension and postretirement benefit expense	(9,325)	(7,591)	(1,373)	(361)	—

Note 9. 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:

	2018	2017
Reserve at beginning of year	\$ 12,093	\$ 10,634
Additions	3,844	2,324
Payments	(2,743)	(2,030)
Reserve at March 31	<u>\$ 13,194</u>	<u>\$ 10,928</u>

Note 10. Stockholders' Equity

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

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

Note 11. Share Repurchase Programs

Share repurchase programs require the approval of the Company's Board of Directors. The following table summarizes the Company's Board authorized share repurchase programs and related information for the three months ended March 31, 2018 and for the full year 2017:

Program ⁽¹⁾	Date Authorized by Board of Directors	Expiration Date	Amount Authorized (excluding commissions)	Amount Spent as of March 31, 2018 (excluding commissions)	Status
2017 Repurchase Program	February 16, 2017	December 31, 2019	\$ 300,000	\$ 92,275	Active
2016 Repurchase Program	February 19, 2016	December 31, 2017	200,000	104,366	Superseded ⁽²⁾

- (1) The repurchase programs listed above do not obligate the Company to acquire any specific number of shares and can be suspended or discontinued at any time without notice. Shares can be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. All repurchases under the programs listed above have been made using cash resources.
- (2) The approximately \$95,634 remaining authorization under the 2016 Repurchase Program as of February 16, 2017 is included in the \$300,000 maximum amount authorized by the 2017 Repurchase Program.

The following table summarizes the Company's open market and 10b5-1 plan share repurchase activity and related information during the three months ended March 31, 2018 and for the full year 2017:

	Number of Shares	Average Repurchase Price Per Share	Amount (including commissions)
2018 share repurchase activity:			
2017 Repurchase Program	469,581	\$ 33.15	\$ 15,565
2017 share repurchase activity:			
2017 Repurchase Program	2,136,237	\$ 35.95	\$ 76,788
2016 Repurchase Program	383,690	\$ 36.70	14,080
Total 2017 share repurchases	<u>2,519,927</u>	\$ 36.06	<u>\$ 90,868</u>

Since the share repurchases began in August 2014 through March 31, 2018, the Company has repurchased 15,220,337 shares of the Company's common stock at an average cost of \$34.38 per share.

Note 12. Changes in Accumulated Other Comprehensive Loss by Component

The following tables present the changes in Accumulated Other Comprehensive Loss by Component for the three month periods ended March 31, 2018 and 2017, respectively.

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

	Cumulative Translation Adjustment	Derivative Instruments	Post-retirement Benefits	Total
Beginning balance, December 31, 2016	\$ (75,415)	\$ 1,967	\$ (471,703)	\$ (545,151)
Other comprehensive income (loss) before reclassifications	12,517	(389)	—	12,128
Foreign currency translation effect	—	—	(865)	(865)
Income tax effect	—	149	—	149
Amount reclassified from accumulated other comprehensive income				
Cash flow hedges	—	(10)	—	(10)
Amortization of prior service credit	—	—	(141)	(141)
Amortization of actuarial losses	—	—	10,591	10,591
Income tax effect	—	4	(3,719)	(3,715)
Other comprehensive income (loss)	12,517	(246)	5,866	18,137
Ending balance, March 31, 2017	\$ (62,898)	\$ 1,721	\$ (465,837)	\$ (527,014)

Note 13. Comprehensive Income (Loss) Attributable to Noncontrolling Shareholders' Interests

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

	Three Months Ended March 31,	
	2018	2017
Net income attributable to noncontrolling shareholders' interests	\$ 698	\$ (1,180)
Other comprehensive income (loss):		
Currency translation adjustments	3,945	2,871
Comprehensive income (loss) attributable to noncontrolling shareholders' interests	\$ 4,643	\$ 1,691

Note 14. Contingent Liabilities

Product Liability Claims

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

The fact that the Company is a defendant in product liability lawsuits is not surprising given the current litigation climate, which is largely confined to the United States. However, the fact that the Company is subject to claims does not indicate that there is a quality issue with the Company's tires. The Company sells approximately 30 to 35 million passenger car, light truck, SUV, TBR and motorcycle tires per year in North America. The Company estimates that approximately 300 million Company-produced tires - made up of thousands of different specifications - are still on the road in North America. While tire disablements do occur, it is the Company's and the tire industry's experience that the vast majority of tire failures relate to service-related conditions, which are entirely out of the Company's control - such as failure to maintain proper tire pressure, improper maintenance, improper repairs, road hazard and excessive speed.

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

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

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

The Company regularly reviews the probable outcome of outstanding legal proceedings and the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated. As part of its regular review, the Company monitors trends that may affect its ultimate liability and analyzes the developments and variables likely to affect pending and anticipated claims against the Company and the reserves for such claims. The Company utilizes claims experience, as well as trends and developments in the litigation climate, in estimating its required accrual. Based on the Company's first quarter review, coupled with normal activity, including the addition of another quarter of self-insured incidents, settlements and changes in the amount of reserves, the Company increased its accrual from \$129,892 at December 31, 2017 to \$130,862 at March 31, 2018.

The addition of another quarter of self-insured incidents accounted for an increase of \$11,003 in the Company's product liability reserve in the first three months of 2018. Settlements, changes in the amount of reserves for cases where sufficient information is known to estimate a liability, and changes in assumptions increased the liability by \$267. The Company paid \$10,300 during the first quarter of 2018 to resolve cases and claims.

The Company's product liability reserve balance at March 31, 2018 totaled \$130,862 (the current portion of \$44,960 is included in Accrued liabilities and the long-term portion is included in Other long-term liabilities on the Condensed Consolidated Balance Sheets), and the balance at December 31, 2017 totaled \$129,892 (current portion of \$44,700).

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

For the three month periods ended March 31, 2018 and 2017, product liability expense totaled \$15,068 and \$16,268, respectively. Product liability expenses are included in Cost of products sold in the Condensed Consolidated Statements of Income.

Note 15. Business Segments

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

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

North America and Latin America meet the criteria for aggregation in accordance with ASC 280, as they are similar in their production and distribution processes and exhibit similar economic characteristics. The aggregated North America and Latin America segments are presented as "Americas Tire Operations" in the segment disclosure. The Americas Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. The segment also has a joint venture manufacturing operation in Mexico, Corporacion de Occidente SA de CV ("COOCSA"), which supplies passenger car tires to the North American, Mexican, Central American and South American markets. The segment also distributes racing, TBR and motorcycle tires. The racing and motorcycle tires are manufactured by the Company's European operations and by others. TBR tires are sourced from GRT and through an off-take agreement that was entered with Prinx Chengshan (Shandong) Tire Company Ltd. ("PCT"), the Company's former joint venture. In December 2017, the Company signed an off-take agreement with Sailun Vietnam Co. Ltd. ("Sailun"), effective from January 1, 2018 through December 31, 2020, as an additional source of TBR tires. 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 ("OEMs").

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

in the United Kingdom ("U.K.") and Serbia. The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for domestic and global markets. The Serbian entity manufactures passenger car and light truck tires primarily for the European markets and for export to the U.S. The Asian operations are located in the PRC. Cooper Kunshan Tire manufactures passenger car and light truck tires both for the Chinese domestic market and for export to markets outside of the PRC. On December 1, 2016, the Company acquired 65 percent ownership of China-based GRT, a joint venture manufacturing facility located in the PRC. GRT serves as a global source of TBR tire production for the Company. The segment also had another joint venture in the PRC, PCT, which manufactured and marketed truck and bus radial and bias tires, as well as passenger car and light truck tires for domestic and global markets. The Company sold its ownership interest in this joint venture in November 2014, and the Company began procuring certain TBR and passenger car tires under off-take agreements with PCT through mid-2018. The TBR tire agreement has been extended and now expires in mid-2019. In December 2017, the Company signed an off-take agreement with Sailun, effective from January 1, 2018 through December 31, 2020, as an additional source of TBR tires. The segment sells a majority of its tires in the replacement market, with a growing portion also sold to OEMs.

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

	Three Months Ended March 31,	
	2018	2017
Net sales		
Americas Tire		
External customers	\$ 478,827	\$ 522,369
Intercompany	6,565	8,991
	<u>485,392</u>	<u>531,360</u>
International Tire		
External customers	122,669	120,656
Intercompany	38,575	21,308
	<u>161,244</u>	<u>141,964</u>
Eliminations	(45,140)	(30,299)
Consolidated net sales	<u>\$ 601,496</u>	<u>\$ 643,025</u>
Operating profit (loss):		
Americas Tire	\$ 31,236	\$ 70,784
International Tire	7,434	3,027
Unallocated corporate charges	(11,966)	(15,464)
Eliminations	(250)	(352)
Operating profit	<u>26,454</u>	<u>57,995</u>
Interest expense	(7,691)	(7,827)
Interest income	2,315	1,802
Other pension and postretirement benefit expense	(6,986)	(9,325)
Other non-operating expense	(1,658)	(235)
Income before income taxes	<u>\$ 12,434</u>	<u>\$ 42,410</u>

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

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

Consolidated Results of Operations

(Dollar amounts in thousands except per share amounts)

	Three Months Ended March 31,		
	2018	% Change	2017
Net sales			
Americas Tire			
External customers	\$ 478,827	(8.3)	\$ 522,369
Intercompany	6,565	(27.0)	8,991
	<u>485,392</u>	(8.7)	<u>531,360</u>
International Tire			
External customers	122,669	1.7	120,656
Intercompany	38,575	81.0	21,308
	<u>161,244</u>	13.6	<u>141,964</u>
Eliminations	(45,140)	(49.0)	(30,299)
Consolidated net sales	<u>\$ 601,496</u>	(6.5)	<u>\$ 643,025</u>
Operating profit (loss):			
Americas Tire	\$ 31,236	(55.9)	\$ 70,784
International Tire	7,434	145.6	3,027
Unallocated corporate charges	(11,966)	22.6	(15,464)
Eliminations	(250)	(29.0)	(352)
Operating profit	<u>26,454</u>	(54.4)	<u>57,995</u>
Interest expense	(7,691)	(1.7)	(7,827)
Interest income	2,315	28.5	1,802
Other pension and postretirement benefit expense	(6,986)	(25.1)	(9,325)
Other non-operating expense	(1,658)	n/m	(235)
Income before income taxes	12,434	(70.7)	42,410
Provision for income taxes	3,451	(73.5)	13,029
Net income	8,983	(69.4)	29,381
Net income (loss) attributable to noncontrolling shareholders' interests	698	n/m	(1,180)
Net income attributable to Cooper Tire & Rubber Company	<u>\$ 8,285</u>	(72.9)	<u>\$ 30,561</u>
Earnings per share:			
Basic	\$ 0.16	(72.4)	\$ 0.58
Diluted	\$ 0.16	(71.9)	\$ 0.57

n/m – not meaningful

Consolidated net sales for the first quarter of 2018 were \$601 million, a decrease of \$42 million from the comparable period one year ago. In the first quarter of 2018, the Company experienced lower unit volume (\$39 million) and unfavorable price and mix (\$20 million), partially offset by favorable foreign currency impact (\$17 million).

The Company recorded operating profit in the first quarter of 2018 of \$26 million, a decrease of \$32 million compared with the first quarter of 2017. Operating profit included lower raw material costs net of price and mix (\$6 million), offset by lower unit

volume (\$11 million) and higher manufacturing costs (\$12 million). The higher manufacturing costs reflect decisions to lower production volume and control inventory levels due to the decline in unit shipments.

The first quarter of 2017 included the reversal of \$22 million related to preliminary truck and bus tire duties expensed in 2016. The preliminary truck and bus tire duties were reversed in the first quarter of 2017 as a result of the International Trade Commission's vote nullifying the preliminary duties. This was partially offset by \$10 million of favorability related to the timing of costs resulting from tornado damage at a North American distribution center in the first quarter of 2017. The first quarter of 2017 included \$7 million of direct expenses related to the tornado damage, while the first quarter of 2018 includes insurance recoveries net of direct expenses of \$3 million. Other operating costs increased from the first quarter of 2017 (\$3 million), including costs related to workforce actions in the U.S. and Latin America, as well as start-up costs related to two new U.S. distribution warehouses which will be operational in 2018.

The Company experienced decreases in the costs of certain of its principal raw materials in the first three months of 2018 compared with the first three months of 2017. The principal raw materials for the Company include natural rubber, synthetic rubber, carbon black, chemicals and steel reinforcement components. Substantially all U.S. inventories have been valued using the LIFO method of inventory costing which accelerates the impact to cost of products 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.

Product liability expenses totaled \$15 million in the first quarter of 2018, compared to \$16 million from the comparable period one year ago. The quarterly expense is a result of the Company's review of its reserves in the quarter, coupled with normal activity, such as the addition of another quarter of self-insured incidents and settlements and changes in the amount of reserves. Additional information related to the Company's accounting for product liability costs appears in the Notes to the condensed consolidated financial statements.

Selling, general and administrative expenses were \$58 million in the first quarter of 2018 (9.6 percent of net sales) and \$61 million in the first quarter of 2017 (9.4 percent of net sales). The decrease in selling, general, and administrative expenses was driven by a decrease in the mark to market costs of stock-based liabilities and reduced incentive compensation, partially offset by an increase in professional fees and costs related to workforce actions in the U.S. and Latin America. The first quarter of 2017 also included the write-off of assets related to the Company's global ERP system implementation, which did not recur in the first quarter of 2018.

Interest expense and interest income in the first quarter of 2018 was comparable to the first quarter of 2017.

As a result of the adoption of ASU 2017-07, the income statement presentation of net periodic benefit cost was changed in the first quarter of 2018. The service cost component of net periodic benefit cost continues to be classified in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are presented in the income statement separately from the service cost component as Other pension and postretirement benefit expense, outside of operating profit. Application of the standard has been applied retrospectively for all periods presented. As a result, \$8.7 million of Cost of product sold and \$0.6 million of Selling, general and administrative expense have been reclassified in the first quarter 2017 Condensed Consolidated Income Statement to Other pension and postretirement benefit expense. The decrease in other pension and postretirement benefit expense to \$7 million in the first quarter of 2018 from \$9 million in the first quarter of 2017 is primarily the result of decreased amortization of actuarial loss in 2018 as a result of improved funding levels at the last actuarial valuation date of December 31, 2017.

Other income decreased \$1 million in the first quarter of 2018 due primarily to the impact of foreign currency forward contracts.

For the three month period ended March 31, 2018, the Company recorded income tax expense of \$3 million (effective rate of 27.8 percent) compared with \$13 million (effective rate of 30.7 percent) for the comparable period in 2017. The effective tax rate for the three month period ended March 31, 2018 differs from the U.S. federal statutory rate of 21 percent primarily due to discrete items related to the accrual of additional uncertain tax positions. The lower statutory rate in 2018 reflects the impact of the 2017 comprehensive U.S. tax legislation.

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 loss carryforward by a valuation allowance of \$1 million. In addition, the Company has recorded valuation allowances of \$30 million relating to non-U.S. net

operating losses for a total valuation allowance of \$31 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.

Segment Operating Results

The Company has four segments under ASC 280:

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

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

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

Americas Tire Operations Segment

(Dollar amounts in thousands)

	Three Months Ended March 31,		
	2018	Change	2017
Net sales	\$ 485,392	(8.7)%	\$ 531,360
Operating profit	\$ 31,236	(55.9)%	\$ 70,784
Operating margin	6.4%	(6.9) points	13.3%
Total unit sales change		(5.6)%	
United States replacement market unit shipment changes:			
Total light vehicle tires			
Segment		(6.4)%	
USTMA members		(5.3)%	
Total Industry		(1.9)%	

Overview

The Americas Tire Operations segment is the aggregation of the Company's North America and Latin America operating segments. The Americas Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. The segment also has a joint venture manufacturing operation in Mexico, COOCSA, which supplies passenger car tires to the North American, Mexican, Central American and South American markets. The segment also distributes racing, TBR and motorcycle tires. The racing and motorcycle tires are manufactured by the Company's European operations and by others. The TBR tires are sourced from GRT and through an off-take agreement that was entered with PCT, the Company's former joint venture. In December 2017, the Company signed an off-take agreement with Sailun, effective from January 1, 2018 through December 31, 2020, as an additional source of TBR tires. 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 OEMs.

Sales

Net sales of the Americas Tire Operations segment for the first quarter of 2018 decreased \$46 million, or 8.7 percent, from the first quarter of 2017. The decrease in sales was a result of lower unit volume (\$30 million) and unfavorable pricing and mix (\$19 million), partially offset by favorable foreign currency impact (\$3 million). Unit shipments for the segment decreased 5.6 percent compared with the first quarter of 2017. In the U.S., the segment's unit shipments of total light vehicle tires decreased 6.4 percent in the first quarter of 2018 compared with the first quarter of 2017. This decrease compares with a 5.3 percent decrease in total light vehicle tire shipments experienced by the members of the U.S. Tire Manufacturing Association

(“USTMA”, formerly the Rubber Manufacturers Association), and a 1.9 percent decrease in total light vehicle tire shipments experienced for the total industry (which includes an estimate for non-USTMA members). The segment’s commercial truck tire unit shipments for the U.S. increased 25.1 percent in the first quarter of 2018 from the first quarter of 2017, compared with a unit shipment decrease of 7.4 percent for the USTMA and a unit shipment increase of 5.1 percent for the industry.

Operating Profit

Operating profit for the segment decreased \$40 million to \$31 million in the first three months of 2018. The segment experienced lower unit volumes (\$10 million), while favorable raw material costs fully offset unfavorable price and mix compared to the first three months of 2017. The segment also experienced increased manufacturing costs (\$12 million) as a result of decisions to lower production volume and control inventory levels due to the decline in unit shipments in the first three months of 2018. In the first quarter of 2017, the Company had a reversal of \$22 million related to preliminary truck and bus tire duties expensed in 2016. This was partially offset by \$10 million of favorability related to the timing of costs resulting from tornado damage at a North American distribution center in the first quarter of 2017. The first quarter of 2017 included \$7 million of direct expenses related to the tornado damage, while the first quarter of 2018 includes insurance recoveries net of direct expenses of \$3 million. Other costs increased (\$6 million), including costs related to workforce actions in Latin America, as well as start-up costs related to two new U.S. distribution warehouses which will be operational in 2018.

The segment’s internally calculated raw material index of 156.6 during the quarter was a decrease of 5.8 percent from the first quarter of 2017. The raw material index increased 2.3 percent from the quarter ended December 31, 2017.

International Tire Operations Segment

(Dollar amounts in thousands)

	Three Months Ended March 31,		
	2018	Change	2017
Net sales	\$ 161,244	13.6%	\$ 141,964
Operating profit	\$ 7,434	145.6%	\$ 3,027
Operating margin	4.6%	2.5 points	2.1%
Total unit sales change		5.4%	

Overview

The International Tire Operations segment is the combination of the Asia and Europe operating segments. The European operations include manufacturing operations in the U.K. and Serbia. The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for domestic and global markets. The Serbian entity manufactures passenger car and light truck tires primarily for the European markets and for export to the U.S. The Asian operations are located in the PRC. Cooper Kunshan Tire manufactures passenger car and light truck tires both for the Chinese domestic market and for export to markets outside of the PRC. On December 1, 2016, the Company acquired 65 percent of China-based GRT, a joint venture manufacturing facility located in the PRC. GRT serves as a global source of truck and bus radial tire production for the Company. The segment also had another joint venture in the PRC, PCT, which manufactured and marketed truck and bus radial and bias tires as well as passenger car and light truck tires for domestic and global markets. The Company sold its ownership interest in this joint venture in November 2014, and the Company began procuring certain TBR and passenger car tires under off-take agreements with PCT through mid-2018. The TBR tire agreement has been extended and now expires in mid-2019. In December 2017, the Company signed an off-take agreement with Sailun, effective from January 1, 2018 through December 31, 2020, as an additional source of TBR tires. The segment sells a majority of its tires in the replacement market, with a growing portion also sold to OEMs.

Sales

Net sales of the International Tire Operations segment for the first three months of 2018 increased \$19 million, or 13.6 percent, from the first three months of 2017. The segment experienced favorable price and mix (\$13 million) and foreign currency impact (\$14 million), partially offset by decreased unit volume (\$8 million) compared with the first three months of 2017. Net segment exports to the U.S. increased slightly compared with the first three months of 2017.

Operating Profit

Operating profit for the segment increased \$4 million from the first three months of 2017 to an operating profit of \$7 million in the first three months of 2018. The segment experienced favorable price and mix (\$6 million), partially offset by decreased volume (\$1 million). Other costs (\$1 million) increased compared to the first quarter of 2017.

Outlook for Company

Operating profit margin performance in the second quarter is expected to be similar to the first quarter, as the Company continues to navigate through a turbulent market environment. However, the Company expects industry demand to improve in the back half of the year. The Company expects that this, along with the Company's actions to drive volume and reduce costs, will result in operating profit approaching the Company's stated 9 percent to 11 percent range for the second half of 2018. In addition, with growth in the International segment, led by Asia, the Company expects to generate full-year unit volume growth on a consolidated basis compared to 2017.

The Company expects its full year 2018 effective tax rate will be in a range between 23 and 26 percent. The decrease in the effective tax rate from 2017 is driven by the reduced U.S. tax rate as a result of the Tax Act and the predominance of the Company's earnings in the U.S. The 23 to 26 percent range does not include the discrete impact of any tax adjustments that may be recorded during the 2018 measurement period prescribed under Staff Accounting Bulletin 118 as a result of the Tax Act.

The Company expects capital expenditures for 2018 will be in a range of \$200 million to \$220 million.

Liquidity and Capital Resources

Uses of cash in operating activities - Net cash consumed by operating activities was \$77 million in the first three months of 2018 compared to net cash consumed of \$68 million in the first three months of 2017. In the first three months of 2018, net income provided \$9 million and other non-cash charges contributed \$37 million, which were more than offset by changes in working capital accounts, which consumed \$123 million. In the first three months of 2017, net income provided \$29 million and other non-cash charges contributed \$61 million, which were more than offset by changes in working capital accounts, which consumed \$158 million. The increase in cash consumed in operating activities in 2018 as compared to 2017 is primarily the result of lower net income in 2018, coupled with growth in the International Tire Operations segment's notes receivable in 2018 as a result of an increase in discount rates, which results in a longer holding period. These decreases were partially offset by improvement in cash consumption related to accounts payable.

Uses of cash in investing activities - Net cash used in investing activities during the first three months of 2018 and 2017 reflect capital expenditures of \$60 million and \$45 million, respectively.

Uses of cash in financing activities - The Company repurchased \$16 million and \$18 million of its common stock in the first three months of 2018 and 2017, respectively. During the first three months of 2018, the Company repaid \$11 million less on short-term debt compared with the first three months of 2017. Dividends paid on the Company's common shares were comparable over the first three months of both 2018 and 2017. During the first three months of 2018, stock options were exercised to acquire 13,111 shares of common stock with a cash impact of \$0.3 million. During the first three months of 2017, stock options were exercised to acquire 175,779 shares of common stock with a cash impact of \$4 million.

Available cash, credit facilities and contractual commitments - At March 31, 2018, the Company had cash and cash equivalents of \$213 million.

Domestically, the Company has a revolving credit facility with a consortium of banks that provides up to \$400 million based on available collateral, including a \$110 million letter of credit subfacility. The revolving credit facility was amended in the first quarter of 2018, which extended the maturity date to February 2023. The Company also has an accounts receivable securitization facility with a borrowing limit of up to \$150 million, based on available collateral. The accounts receivable securitization facility was also amended in the first quarter of 2018, which extended the maturity date to February 2021.

These credit facilities are undrawn, other than to secure letters of credit, at March 31, 2018. The Company's additional borrowing capacity, net of amounts used to back letters of credit and based on available collateral at March 31, 2018, was \$501 million.

The Company's operations in Asia have annual renewable unsecured credit lines that provide up to \$44 million of borrowings and do not contain significant financial covenants. The additional borrowing capacity on the Asian credit lines totaled \$3 million at March 31, 2018.

The Company believes that its cash and cash equivalent balances along with available cash from operating cash flows and credit facilities will be adequate to fund its typical needs, including working capital requirements, projected capital expenditures, including its portion of capital expenditures in its partially-owned subsidiaries, and dividend and share repurchase goals. The Company also believes it has access to additional funds from capital markets to fund potential strategic initiatives. The entire amount of short-term notes payable outstanding at March 31, 2018 is debt of consolidated subsidiaries. The Company expects its subsidiaries to refinance or pay these amounts within the next twelve months.

The following table summarizes long-term debt at March 31, 2018:

Parent company	
8% unsecured notes due December 2019	\$ 173,578
7.625% unsecured notes due March 2027	116,880
Capitalized leases and other	6,930
	<u>297,388</u>
Less: unamortized debt issuance costs	721
	<u>296,667</u>
Less: current maturities	1,446
	<u><u>\$ 295,221</u></u>

Contingencies

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

Pursuant to ASC 450, the Company accrues the minimum liability for each known claim when the estimated outcome is a range of probable loss and no one amount within that range is more likely than another. The Company uses a range of losses because an average cost would not be meaningful since the product liability claims faced by the Company are unique and widely variable, and accordingly, the resolutions of those claims have an enormous amount of variability. The costs have ranged from zero dollars to \$33 million in one case with no "average" that is meaningful. No specific accrual is made for individual unasserted claims or for premature claims, asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known.

However, an accrual for such claims based, in part, on management's expectations for future litigation activity and the settled claims history is maintained. The Company periodically reviews such estimates and any adjustments for changes in reserves are recorded in the period in which the change in estimate occurs. Because of the speculative nature of litigation in the U.S., the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. While the Company believes its reserves are reasonably stated, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

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

Forward Looking Statements

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

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

- volatility in raw material and energy prices, including those of rubber, steel, petroleum-based products and natural gas or the unavailability of such raw materials or energy sources;
- the failure of the Company's suppliers to timely deliver products or services in accordance with contract specifications;
- changes to tariffs or trade agreements, or the imposition of new tariffs or trade restrictions, including changes related to tariffs on tires imported into the U.S. from China, as well as tariffs imposed on raw materials which the Company uses;
- changes in economic and business conditions in the world, including changes related to the United Kingdom's decision to withdraw from the European Union;
- the impact of the recently enacted tax reform legislation;
- increased competitive activity including actions by larger competitors or lower-cost producers;
- the failure to achieve expected sales levels;
- changes in the Company's customer or supplier relationships, including loss of particular business for competitive, credit, liquidity, bankruptcy, restructuring or other reasons;
- consolidation or other cooperation by and among the Company's competitors or customers;
- the ultimate outcome of litigation brought against the Company, including product liability claims, which could result in commitment of significant resources and time to defend and possible material damages against the Company or other unfavorable outcomes;
- a disruption in, or failure of, the Company's information technology systems, including those related to cybersecurity, could adversely affect the Company's business operations and financial performance;
- changes in pension expense and/or funding resulting from the Company's pension strategy, investment performance of the Company's pension plan assets and changes in discount rate or expected return on plan assets assumptions, or changes to related accounting regulations;
- government regulatory and legislative initiatives including environmental, healthcare, privacy and tax matters;
- volatility in the capital and financial markets or changes to the credit markets and/or access to those markets;
- a variety of factors, including market conditions, may affect the actual amount expended on stock repurchases; the Company's ability to consummate stock repurchases; changes in the Company's results of operations or financial conditions or strategic priorities may lead to a modification, suspension or cancellation of stock repurchases, which may occur at any time;
- 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;
- failure to implement information technologies or related systems, including failure by the Company to successfully implement ERP systems;
- the risks associated with doing business outside of the U.S.;
- the failure to develop technologies, processes or products needed to support consumer demand or changes in consumer behavior;
- 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, or at one or more of its large customers or suppliers;
- failure to attract or retain key personnel;
- inaccurate assumptions used in developing the Company's strategic plan or operating plans or the inability or failure to successfully implement such plans or to realize the anticipated savings or benefits from strategic actions;
- the costs and timing of restructuring actions and impairments or other charges resulting from such actions or from adverse industry, market or other developments;
- risks relating to acquisitions including the failure to successfully integrate them into operations or their related financings may impact liquidity and capital resources;
- changes in the Company's relationship with its joint-venture partners or suppliers, including any changes with respect to its former PCT joint venture's production of Cooper-branded products;
- the ability to find alternative sources for products supplied by PCT;
- 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; and
- inability to use deferred tax assets.

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk at March 31, 2018 from those detailed in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2017.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the reports the Company files or submits as defined in Rule 13a-15(e) of the Securities and Exchange Act of 1934, 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 March 31, 2018 ("Evaluation Date")). Based on its initial evaluation, the Company's CEO and CFO concluded that its disclosure controls and procedures were effective as of the Evaluation Date.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are product liability cases in which individuals involved in motor vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. After reviewing all of these proceedings, and taking into account all relevant factors concerning them, the Company does not believe that any liabilities resulting from these proceedings are reasonably likely to have a material adverse effect on its liquidity, financial condition or results of operations in excess of amounts recorded at March 31, 2018. In the future, such costs could have a materially greater impact on the consolidated results of operations and financial position of the Company than in the past.

Item 1A. RISK FACTORS

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

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

The pricing volatility for natural rubber, petroleum-based materials and other raw materials contributes to the difficulty in managing the costs of raw materials. Costs for certain raw materials used in the Company's operations, including natural rubber, chemicals, carbon black, steel reinforcements and synthetic rubber remain highly volatile. Increasing costs for raw material supplies will increase the Company's production costs and affect its margins if the Company is unable to pass the higher production costs on to its customers in the form of price increases. Even if the Company is able to pass along these higher costs, its profitability may be adversely affected until it is able to do so. Decreasing costs for raw materials could also affect margins if the Company is unable to maintain its pricing structure due to the need to offer price reductions to remain competitive. Further, if the Company is unable to obtain adequate supplies of raw materials in a timely manner for any reason, its operations could be interrupted or otherwise adversely affected.

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

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

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

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

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

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

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

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

In addition, antidumping and countervailing duty investigations into certain truck and bus tires imported from the PRC into the U.S. were initiated on January 29, 2016. The preliminary determinations announced in both investigations were affirmative and resulted in the imposition of significant additional duties from each. On February 22, 2017, the International Trade Commission ("ITC") made a final determination that the U.S. market had not suffered material injury because of imports of truck and bus tires from China. As a result of this decision, preliminary antidumping and countervailing duties from Chinese truck and bus

tires imported subsequent to the preliminary determination were not collected and any amounts previously paid were refunded. On April 14, 2017, the United Steelworkers Union filed a civil action challenging the ITC's decision not to impose duties on truck and bus tires from China imported into the U.S.

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

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

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

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

In 2014, the Company sold its ownership interest in PCT and entered into off-take agreements with PCT to provide the continuous supply of certain TBR and passenger car tires for the Company through mid-2018. The TBR tire agreement has been extended and now expires in mid-2019. If there are any disruptions in or quality issues with the supply of Cooper-branded products from PCT, it could have a material negative impact on the Company's business. The Company is actively pursuing options to ensure the uninterrupted supply of these tires to meet the demands of the business beyond the terms of the PCT off-take agreements, including sourcing through GRT and an off-take agreement with Sailun, but there can be no assurance that the Company will be able to do so in a timely manner.

If the Company fails to develop technologies, processes or products needed to support consumer demand or, changes in consumer behavior, 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, changes in the types of tires consumers desire, changes in the vehicles consumers are purchasing and failure to effectively compete in various sales channels, including digital channels and others in which the Company has been less active in the past.

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

An increase in consumer preference for car- and ride-sharing services, as opposed to automobile ownership, may result in a long term reduction in the number of vehicles per capita. Additionally, developing new products and technologies requires significant investment and capital expenditures, is technologically challenging and requires extensive testing and accurate anticipation of technological and market trends. If the Company fails to develop new products that are appealing to its customers, or fails to develop products on time and within budgeted amounts, the Company may be unable to recover its product development and testing costs. If the Company cannot successfully use new production or equipment methodologies it invests in, it may also not be able to recover those costs.

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

The Company faces both general industry and company-specific challenges. These include volatile raw material costs, increasing product complexity and pressure from competitors with greater resources or manufacturing in lower-cost regions. To address these challenges and position the Company for future success, the Company continues to execute towards strategic imperatives outlined in its Strategic Plan. The three strategic imperatives are building a sustainable cost competitive position, driving top-line profitable growth and building organizational capabilities and enablers to support strategic goals.

The Company continually reviews and updates its business plans to achieve these imperatives. If the assumptions used in developing the Company's business plans vary significantly from actual conditions, the Company's sales, margins and

profitability could be harmed. If the Company is unsuccessful in implementing the tactics necessary to execute its business plans, it may not be able to achieve or sustain future profitability, which could impair its ability to meet debt and other obligations and could otherwise negatively affect its operating results, financial condition and liquidity.

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

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

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

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

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

The Company relies on the accuracy, capacity and security of its information technology systems across all of its major business functions, including its research and development, manufacturing, sales, financial and administrative functions. While the Company maintains some of its critical information technology systems, it is also dependent on third parties to provide important information technology services relating to, among other things, human resources, electronic communications and certain finance functions. Additionally, the Company collects and stores sensitive data, including intellectual property, proprietary business information and the proprietary business information of its customers and suppliers, as well as personally identifiable information of the Company's customers and employees, in data centers and on information technology networks. Despite the security measures that the Company has implemented, including those related to cybersecurity, its systems could be breached or damaged by computer viruses, natural or man-made incidents or disasters or unauthorized physical or electronic access. Furthermore, the Company may have little or no oversight with respect to security measures employed by third-party service providers, which may ultimately prove to be ineffective at countering threats. A system failure, accident or security breach could result in business disruption, theft of its intellectual property, trade secrets or customer information and unauthorized access to personnel information. To the extent that any system failure, accident or security breach results in disruptions to its operations or the theft, loss or disclosure of, or damage to, its data or confidential information, the Company's reputation, business, results of operations, cash flows and financial condition could be materially adversely affected. In addition, the Company may be required to incur significant costs to protect against and, if required, remediate the damage caused by such disruptions or system failures in the future.

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

The Company's operations expose it to legal actions, including potential liability for personal injury or death as an alleged result of the failure of or conditions in the products that it designs, manufactures and sells. Specifically, the Company is a party to a number of product liability cases in which individuals involved in motor vehicle accidents seek damages resulting from allegedly defective tires that it manufactured. Product liability claims and lawsuits, including possible class action, may result in material losses in the future and cause the Company to incur significant litigation defense costs. The Company is largely self-insured against these claims. These claims 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. Due to the inherent uncertainties of any litigation, commercial disputes or other legal proceedings, the Company cannot accurately predict their ultimate outcome, including the outcome of any related appeals. An unfavorable outcome could materially adversely impact the Company's financial condition, cash flows and results of operations.

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

The Company has affiliate, subsidiary and joint venture operations worldwide, including in the U.S., Europe, Mexico and the PRC. The Company has a wholly-owned manufacturing entity, Cooper Kunshan Tire, and is the majority owner of GRT, both in the PRC. The Company also is the majority owner of COOCSA, a manufacturing entity in Mexico, and has established operations in Serbia and the U.K. PCT, located in the PRC, is currently a supplier of TBR tires for the Company and the Company recently entered into an off-take agreement with Sailun, located in Vietnam, for the supply of TBR tires. There are a number of risks in doing business abroad, including political and economic uncertainty, social unrest, sudden changes in laws and regulations, ability to enforce existing or future contracts, shortages of trained labor and the uncertainties associated with entering into joint ventures or similar arrangements in foreign countries. These risks may impact the Company's ability to expand its operations in different regions and otherwise achieve its objectives relating to its foreign operations, including utilizing these locations as suppliers to other markets. In addition, compliance with multiple and potentially conflicting foreign laws and regulations, import and export limitations and exchange controls is burdensome and expensive. For example, the Company could be adversely affected by violations of the Foreign Corrupt Practices Act ("FCPA") and similar worldwide anti-bribery laws as well as export controls and economic sanction laws. The FCPA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials and, in some cases, other persons, for the purpose of obtaining or retaining business. Violations of these laws and regulations could result in civil and criminal fines, penalties and sanctions against the Company, its officers or its employees, prohibitions on the conduct of the Company's business and on its ability to offer products and services in one or more countries, and could also harm the Company's reputation, business and results of operations. The Company's foreign operations also subject it to the risks of international terrorism and hostilities and to foreign currency risks, including exchange rate fluctuations and limits on the repatriation of funds. See also related comments under "The Company's results could be impacted by changes in tariffs, trade agreements or other trade restrictions imposed by the U.S. or other governments on imported tires or raw materials."

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

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The terms of the withdrawal are subject to a negotiation period that could last until or beyond March 2019, two years after the government of the United Kingdom formally initiated the withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union laws to replace or replicate as part of the withdrawal. The referendum has also given rise to calls for the governments of other European Union member states to consider withdrawal.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, including volatility in the value of the British pound sterling and Euro. These developments may also significantly reduce global market liquidity or restrict the ability of key market participants to operate in certain financial markets. The effects of the United Kingdom's withdrawal from the European Union will also depend on terms of new trade agreements between the United Kingdom and other countries, as well as any other agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Any of these factors could depress economic activity and restrict the Company's access to capital, which could have a material adverse effect on the Company's business, financial condition and results of operations. These developments may also have other direct or indirect effects which could have a material adverse effect on the Company's business, financial condition and results of operations.

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

The Company is subject to federal, state, local and foreign laws and regulations. Compliance with those laws now in effect, or that may be enacted, could require significant capital expenditures, increase the Company's production costs and affect its earnings and results of operations. Periodic changes as the result of elections in the U.S. and worldwide make it difficult to predict the legislative and regulatory changes that may occur.

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

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

The Company is also subject to legislation governing labor, environmental, privacy and data protection, occupational safety and health both in the U.S. and other countries. The related legislation can change over time making it more expensive for the Company to produce its products.

The Company could also, despite its best efforts to comply with these laws and regulations, be found liable and be subject to additional costs because of these laws and regulations.

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

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

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

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

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

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

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 and bank financings. Additionally, any inability to access the capital markets or bank financings, including the ability to refinance existing debt when due, could require the Company to defer critical capital expenditures, reduce or not pay dividends, reduce spending in areas of strategic importance, sell important assets or, in extreme cases, seek protection from creditors. See also related comments under "There are risks associated with the Company's global strategy, which includes using joint ventures and partially-owned subsidiaries."

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

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 stockholders' agreements; conflicts with joint venture partners; the possibility of a joint venture partner taking valuable

knowledge from the Company; and risk of being denied access to the capital markets, which could lead to resource demands on the Company in order to maintain or advance its strategy. The Company's outstanding notes and primary credit facility contain cross default provisions in the event of certain defaults by the Company under other agreements with third parties. For further discussion of access to the capital markets, see also related comments under "The Company has a risk due to volatility of the capital and financial markets."

The 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 additional acquisition opportunities, some of which could be material to its business. The Company cannot provide assurance whether it will be successful in pursuing and integrating any 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.

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

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

The Company has and may in the future initiate restructuring actions designed to improve future profitability and competitiveness, and enhance the Company's flexibility. The Company may not realize anticipated savings or benefits from future actions in full or in part or within the time periods it expects. The Company is also subject to the risks of labor unrest, negative publicity and business disruption in connection with these actions. Failure to realize anticipated savings or benefits from the Company's actions could have an adverse effect on the business. Such restructuring actions and impairments or other charges could have a significant negative impact on the Company's earnings or cash flows in the short-term.

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

The Company has significant net deferred tax assets recorded on the balance sheet and determines at each reporting period whether or not a valuation allowance is necessary based upon the expected realizability of such deferred tax assets. In the U.S., the Company has recorded deferred tax assets, the largest of which relate to product liability, pension and other postretirement benefit obligations, partially offset by deferred tax liabilities, the most significant of which relates to accelerated depreciation. The Company's non-U.S. deferred tax assets relate to pension, accrued expenses and net operating losses, and are partially

offset by deferred tax liabilities related to accelerated depreciation. Based upon the Company's assessment of the realizability of its net deferred tax assets, the Company maintains a valuation allowance in the U.K., as well as a small valuation allowance for the portion of its U.S. deferred tax assets primarily associated with a loss carryforward. In addition, the Company has recorded valuation allowances for deferred tax assets primarily associated with other non-U.S. net operating losses.

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

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

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

Recently enacted tax reform legislation has made substantial changes to U.S. tax law, including a reduction in the corporate tax rate, a limitation on deductibility of interest expense, a limitation on the use of net operating losses to offset future taxable income, the allowance of immediate expensing of capital expenditures and deemed repatriation of foreign earnings. We expect this legislation to have significant effects on us, some of which may be adverse. For example, the reduction in the corporate tax rate has resulted in a reduction in the value of our existing deferred tax assets, and consequently a charge to our earnings in 2017. The magnitude of the net impact remains uncertain at this time and is subject to any other regulatory or administrative developments, including any regulations or other guidance promulgated by the U.S. Internal Revenue Service.

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

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, including increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change, and the Company expects that additional requirements with respect to environmental matters will be imposed on it in the future. In addition, the Company has contractual indemnification obligations for environmental remediation costs and liabilities that may arise relating to certain divested operations. Material future expenditures may be necessary if compliance standards change, if material unknown conditions that require remediation are discovered, or if required remediation of known conditions becomes more extensive than expected. If the Company fails to comply with present and future environmental laws and regulations, it could be subject to future liabilities or the suspension of production, which could harm its business or results of operations. Environmental laws could also restrict the Company's ability to expand its facilities or could require it to acquire costly equipment or to incur other significant expenses in connection with its manufacturing processes.

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

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

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 the Company believes it has rights to use all intellectual property in the Company's use, if the Company is found to infringe on the rights of others it could be adversely impacted.

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

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

The Company is facing risks relating to healthcare legislation.

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

Item 2. ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth a summary of the Company's purchases during the quarter ended March 31, 2018 of equity securities registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (in thousands, except number of shares and per share amounts):

Period ⁽¹⁾	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2018 through January 31, 2018	94,034	\$ 38.63	94,034	\$ 219,646
February 1, 2018 through February 28, 2018	105,322	\$ 36.21	105,322	\$ 215,836
March 1, 2018 through March 31, 2018	270,225	\$ 30.04	270,225	\$ 207,725
Total	469,581	\$ 33.15	469,581	

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

Item 6. EXHIBITS

(a) Exhibits

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

SIGNATURES

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

COOPER TIRE & RUBBER COMPANY

/s/ Ginger M. Jones

Ginger M. Jones
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Mark A. Young

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

April 30, 2018

(Date)

40

[\(Back To Top\)](#)

Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit (31.1)

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: April 30, 2018

/s/ Bradley E. Hughes

Bradley E. Hughes, President and
Chief Executive Officer

[\(Back To Top\)](#)

Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit (31.2)

CERTIFICATIONS

I, Ginger M. Jones, 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: April 30, 2018

/s/ Ginger M. Jones

Ginger M. Jones, Senior Vice President and
Chief Financial Officer

[\(Back To Top\)](#)

Section 4: EX-32 (EXHIBIT 32)

Exhibit (32)

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

In connection with the Quarterly Report of Cooper Tire & Rubber Company (the "Company") on Form 10-Q for the period ended March 31, 2018, 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: April 30, 2018

/s/ Bradley E. Hughes

Name: Bradley E. Hughes
Title: Chief Executive Officer

/s/ Ginger M. Jones

Name: Ginger M. Jones
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.

[\(Back To Top\)](#)