COOPER TIRE & RUBBER CO
Form 10-Q
August 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

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

Commission File No. 1-4329

COOPER TIRE & RUBBER COMPANY

(Exact name of registrant as specified in its charter)

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

701 Lima Avenue, Findlay, Ohio 45840

(Address of principal executive offices)

(Zip code)

(419) 423-1321

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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 x   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	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Number of shares of common stock of registrant outstanding as of August 3, 2016: 54,144,593

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 June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Net sales	**$ 740,294**	$ 751,781	**$ 1,390,069**	$ 1,414,987
Cost of products sold	**560,625**	592,089	**1,059,971**	1,123,340
Gross profit	**179,669**	159,692	**330,098**	291,647
Selling, general and administrative expense	**69,753**	60,264	**129,078**	121,865
Operating profit	**109,916**	99,428	**201,020**	169,782
Interest expense	**(6,286)**	(6,240)	**(12,921)**	(12,597)
Interest income	**948**	514	**1,888**	1,075
Other non-operating income	**1,427**	1,592	**2,888**	1,672
Income before income taxes	**106,005**	95,294	**192,875**	159,932
Provision for income taxes	**34,654**	34,818	**62,752**	57,294
Net income	**71,351**	60,476	**130,123**	102,638
Net income attributable to noncontrolling shareholder interests	**602**	894	**369**	2,295
Net income attributable to Cooper Tire & Rubber Company	**$ 70,749**	$ 59,582	**$ 129,754**	$ 100,343
Basic earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	**$ 1.29**	$ 1.04	**$ 2.35**	$ 1.74
Diluted earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	**$ 1.27**	$ 1.03	**$ 2.32**	$ 1.72
Dividends per share	**$ 0.105**	$ 0.105	**$ 0.210**	$ 0.210

See accompanying notes to Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Dollar amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Net income	**$ 71,351**	$ 60,476	**$ 130,123**	$ 102,638
Other comprehensive (loss) income				
Foreign currency translation adjustments	**(22,239)**	9,293	**(25,191)**	(3,565)
Financial instruments				
Change in the fair value of derivatives	**(295)**	(6,464)	**(5,751)**	(2,044)
Income tax benefit on derivative instruments	**90**	2,564	**2,163**	832
Financial instruments, net of tax	**(205)**	(3,900)	**(3,588)**	(1,212)
Postretirement benefit plans				
Amortization of actuarial loss	**10,937**	11,687	**21,869**	23,357
Amortization of prior service credit	**(142)**	(142)	**(283)**	(283)
Income tax provision on postretirement benefit plans	**(3,854)**	(4,104)	**(7,707)**	(8,205)
Foreign currency translation effect	**5,234**	(6,257)	**7,263**	(991)
Postretirement benefit plans, net of tax	**12,175**	1,184	**21,142**	13,878
Other comprehensive (loss) income	**(10,269)**	6,577	**(7,637)**	9,101
Comprehensive income	**61,082**	67,053	**122,486**	111,739
Less comprehensive (loss) income attributable to noncontrolling shareholder interests	**(996)**	342	**(1,427)**	643
Comprehensive income attributable to Cooper Tire & Rubber Company	**$ 62,078**	$ 66,711	**$ 123,913**	$ 111,096

See accompanying notes to Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands except per-share amounts)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 412,098**	$ 505,157
Notes receivable	**5,886**	8,750
Accounts receivable, less allowances of $7,532 at 2016 and $7,533 at 2015	**430,043**	371,757
Inventories at lower of cost or market:		
Finished goods	**387,742**	297,967
Work in process	**25,875**	26,666
Raw materials and supplies	**93,365**	87,928
	506,982	412,561
Other current assets	**49,085**	36,405
Total current assets	**1,404,094**	1,334,630
Property, plant and equipment:		
Land and land improvements	**49,106**	49,782
Buildings	**279,054**	277,034
Machinery and equipment	**1,663,545**	1,637,637
Molds, cores and rings	**218,697**	236,370
	2,210,402	2,200,823
Less: accumulated depreciation	**1,407,468**	1,405,625
Net property, plant and equipment	**802,934**	795,198
Goodwill	**18,851**	18,851
Intangibles, net of accumulated amortization of $69,188 at 2016 and $62,274 at 2015	**132,300**	133,490
Restricted cash	**991**	802
Deferred income tax assets	**127,998**	136,310
Other assets	**17,306**	16,895
Total assets	**$ 2,504,474**	$ 2,436,176
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	**$ 3,716**	$ 12,437
Accounts payable	**214,961**	215,850
Accrued liabilities	**208,416**	199,368
Income taxes payable	**18,972**	4,748

Current portion of long-term debt	**600**	600
Total current liabilities	**446,665**	433,003
Long-term debt	**295,853**	296,412
Postretirement benefits other than pensions	**250,519**	249,650
Pension benefits	**280,971**	304,621
Other long-term liabilities	**143,008**	132,594
Deferred income tax liabilities	**2,085**	2,285
Equity:		
Preferred stock, $1 par value; 5,000,000 shares authorized; none issued		
Common stock, $1 par value; 300,000,000 shares authorized; 87,850,292 shares issued	**87,850**	87,850
Capital in excess of par value	**23,225**	16,306
Retained earnings	**2,214,067**	2,095,923
Accumulated other comprehensive loss	**(515,608)**	(509,767)
	1,809,534	1,690,312
Less: common shares in treasury at cost (33,368,351 at 2016 and 32,017,754 at 2015)	**(761,097)**	(711,064)
Total parent stockholders equity	**1,048,437**	979,248
Noncontrolling shareholder interest in consolidated subsidiary	**36,936**	38,363
Total equity	**1,085,373**	1,017,611
Total liabilities and equity	**$ 2,504,474**	$ 2,436,176

See accompanying notes to Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollar amounts in thousands)

	Six Months Ended June 30,	
	2016	2015
Operating activities:		
Net income	**$ 130,123**	$ 102,638
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**64,092**	59,457
Stock-based compensation	**9,699**	8,674
Change in LIFO inventory reserve	**(18,232)**	(51,512)
Amortization of unrecognized postretirement benefits	**21,586**	23,074
Changes in operating assets and liabilities:		
Accounts and notes receivable	**(61,069)**	(38,195)
Inventories	**(82,909)**	(18,131)
Other current assets	**(17,193)**	(10,087)
Accounts payable	**6,898**	(20,358)
Accrued liabilities	**5,154**	17,952
Other items	**10,929**	(26,638)
Net cash provided by operating activities	**69,078**	46,874
Investing activities:		
Additions to property, plant and equipment and capitalized software	**(85,479)**	(88,598)
Proceeds from the sale of assets	**331**	1,555
Net cash used in investing activities	**(85,148)**	(87,043)
Financing activities:		
Net payments on short-term debt	**(9,200)**	(43,554)
Repayments of long-term debt	**(600)**	(1,708)
Payment of financing fees		(2,586)
Repurchase of common stock	**(54,130)**	(60,046)
Payment of dividends to Cooper Tire & Rubber Company stockholders	**(11,584)**	(12,050)
Issuance of common shares and excess tax benefits on stock options	**3,525**	17,441
Net cash used in financing activities	**(71,989)**	(102,503)
Effects of exchange rate changes on cash	**(5,000)**	(923)
Net change in cash and cash equivalents	**(93,059)**	(143,595)
Cash and cash equivalents at beginning of year	**505,157**	551,652

Cash and cash equivalents at end of period	**$ 412,098**	$ 408,057

See accompanying notes to Condensed Consolidated Financial Statements.

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COOPER TIRE & RUBBER COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands except per-share amounts)

1. Basis of Presentation and Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (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 passenger and truck replacement tires, but sales of light vehicle replacement tires are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of June through November. Operating results for the six-month period ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ended December 31, 2016.

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 venture is a business established and maintained in connection with the Company s operating strategy. All intercompany transactions and balances have been eliminated.

Joint Venture Agreement

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). The Company will own 65 percent of the entity for 600,000 RMB, or approximately $92,000 as of the date the agreement was signed, including the acquisition and initial investments in the operation. The transaction is expected to close in 2016, pending certain permits and approvals by the Chinese government.

In the first quarter, the Company made a down payment in the amount of $5,929 for this transaction in accordance with the purchase agreement. The down payment is fully refundable in the event that the transaction does not close and does not provide the Company with any power to direct the activities of the existing GRT entity prior to the transaction closing. The down payment is classified as a deposit within Other current assets on the balance sheet.

After the acquisition, GRT is expected to serve 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.

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

Fair Value Measurements In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendment also limits disclosure to investments for which the practical expedient has been elected instead of all investments eligible for the practical expedient. Application of the standard, which must be applied retrospectively, is required for the annual and interim periods beginning after December 15, 2015. The adoption of this standard did not have any impact on the Company s condensed consolidated financial statements.

Accounting Pronouncements To Be Adopted

Revenue Recognition In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The standard provides a five-step model to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The standard also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity s contracts with customers. The standard was proposed to be effective for annual and interim periods beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations, which clarifies that the determination of whether the reporting entity is a principal or an agent should be made for each specified good or service promised to the customer. In April 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, which clarifies treatment related to immaterial items, shipping and handling activities, and assessing whether promised goods or services are distinct in identifying performance obligations. In May 2016, the FASB issued ASU 2016-12 Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients, which provides additional guidance concerning collectibility, presentation of sales tax collected from customers, practical expedients with respect to contract modifications, and additional transition guidance. The new revenue recognition standard permits the use of either a retrospective or cumulative effect transition method. The Company has not yet selected a transition method and is currently evaluating the impact the new standards will have on its condensed consolidated financial statements and related disclosures.

Inventory In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, which is intended to simplify the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in first-out and the retail inventory method. Application of the standard, which

should be applied prospectively, is required for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

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 Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

Stock Compensation In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which requires all excess tax benefits or deficiencies to be recognized as income tax expense or benefit in the income statement. In addition, excess tax benefits should be classified along with other income tax cash flows as an operating activity in the statement of cash flows. Application of the standard is required for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

2. 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 June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Numerator				
Numerator for basic and diluted earnings per share - Net income attributable to common stockholders	**$ 70,749**	$ 59,582	**$ 129,754**	$ 100,343
Denominator				
Denominator for basic earnings per share - weighted average shares outstanding	**55,020**	57,244	**55,280**	57,658
Effect of dilutive securities - stock options and other stock units	**582**	534	**572**	633
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	**55,602**	57,778	**55,852**	58,291
Basic earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	**$ 1.29**	$ 1.04	**$ 2.35**	$ 1.74
Diluted earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	**$ 1.27**	$ 1.03	**$ 2.32**	$ 1.72

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 June 30, 2016 and 2015.

3. 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 $432,372 and $361,779 at June 30, 2016 and December 31, 2015, respectively. These FIFO values have been reduced by approximately $54,891 and $73,123 at June 30, 2016 and December 31, 2015, respectively, to arrive at the LIFO value reported on the Condensed Consolidated Balance Sheets. The remaining inventories have been valued under the FIFO or average cost methods. All inventories are stated at the lower of cost or market.

4. 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 fair value and cash flow hedges of foreign currency exposures. The change in values of the fair value foreign currency hedges offsets exchange rate fluctuations on the foreign currency-denominated intercompany loans and obligations. The Company presently hedges exposures in the Euro, Canadian dollar, British pound sterling, Swiss franc, Swedish krona, Norwegian krone, Mexican peso and Chinese yuan generally for transactions expected to occur within the next 12 months. The notional amount of these foreign currency derivative instruments at June 30, 2016 and December 31, 2015 was $104,131 and $68,732, 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 ($2,351) and $3,400 as of June 30, 2016 and December 31, 2015, respectively) are recorded as a separate component of stockholders equity in the accompanying Condensed Consolidated Balance Sheets and reclassified into earnings as the hedged transactions occur.

The Company assesses hedge 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:

	June 30, 2016	December 31, 2015
Assets/(liabilities)		
Designated as hedging instruments:		
Gross amounts recognized	**$ (2,351)**	$ 3,559
Gross amounts offset		(35)
Net amounts	**$ (2,351)**	$ 3,524
Not designated as hedging instruments:		
Gross amounts recognized	**473**	174
Other current (liabilities) assets	**$ (1,878)**	$ 3,698

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives Designated as Cash Flow Hedges	**2016**	2015	**2016**	2015
Amount of (Loss) Gain Recognized in Other Comprehensive Income on Derivatives (Effective Portion)	**$ (312)**	$ (3,800)	**$ (4,356)**	$ 4,946
Amount of (Loss) Gain Reclassified from Cumulative Other Comprehensive Loss into Income (Effective Portion)	**(17)**	2,664	**1,395**	6,990
Amount of Loss Recognized in Income on Derivatives (Ineffective Portion)		(289)		(81)

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives — Three Months Ended June 30,		Six Months Ended June 30,	
		2016	2015	**2016**	2015
Foreign exchange contracts	Other non-operating income	**$ 585**	$ 1,052	**$ (315)**	$ 1,284

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 asset and liability values are based on unadjusted quoted prices for an identical asset or liability in an active market that the Company has the ability to access.

Level 2. Financial asset and liability 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 asset and liability values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The valuation of foreign exchange forward contracts was determined using widely accepted valuation techniques. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs, including forward points. The Company incorporated credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. Although the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as current credit ratings, to evaluate the likelihood of default by itself and its counterparties. As of June 30, 2016 and December 31, 2015, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety were classified in Level 2 of the fair value hierarchy.

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

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

	June 30, 2016			
	Total Liabilities	**Quoted Prices in Active Markets for Identical Assets Level (1)**	**Significant Other Observable Inputs Level (2)**	**Significant Unobservable Inputs Level (3)**
Foreign Exchange Contracts	**$ (1,878)**	**$**	**$ (1,878)**	**$**
Stock-based Liabilities	**$ (16,097)**	**$ (16,097)**	**$**	**$**

	December 31, 2015			
	Total Assets (Liabilities)	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Foreign Exchange Contracts	$ 3,698	$	$ 3,698	$
Stock-based Liabilities	$ (18,057)	$ (18,057)	$	$

The fair market value of Cash and cash equivalents, Notes receivable, Restricted cash, Notes payable and Current portion of long-term debt at June 30, 2016 and December 31, 2015 are equal to their corresponding carrying values as reported on the Condensed Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015, 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 $329,723 and $323,522 at June 30, 2016 and December 31, 2015, respectively, and is classified within Level 1 of the fair value hierarchy. The carrying value of Long-term debt is $295,853 and $296,412 as reported on the Condensed Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015, respectively.

5. Income Taxes

For the quarter ended June 30, 2016, the Company recorded income tax expense of $34,654 (effective rate of 32.7 percent) compared with $34,818 (effective rate of 36.5 percent) for the comparable period in 2015. For the six-month period ended June 30, 2016, the Company recorded income tax expense of $62,752 (effective rate of 32.5 percent) compared with $57,294 (effective rate of 35.8 percent) for the comparable period in 2015. The 2016 quarter and six-month period income tax expense is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. This rate differs from the U.S. federal statutory rate of 35 percent primarily because of the projected mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances.

Income tax expense for the current quarter is comparable to the same period from the prior year on greater earnings due to a lower forecasted annual effective tax rate that is the result of a higher mix of earnings in international jurisdictions with lower tax rates. Income tax expense for the six-month period is higher compared to the same period from the prior year due to increased earnings, primarily in the U.S., partially offset with the benefit of a higher mix of earnings in international jurisdictions with lower tax rates. In addition, both the current quarter and six-month period were favorably impacted by a reduction in the Company s liability for unrecognized tax benefits as a result of lapses in statutes.

The Company continues to maintain a valuation allowance pursuant to ASC 740, Accounting for Income Taxes, against a portion of its U.S. and non-U.S. deferred tax asset position at June 30, 2016, 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 $2,096. In addition, the Company has recorded valuation allowances of $12,802 relating to non-U.S. net operating losses for a total valuation allowance of $14,898. In conjunction with the Company s ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when they are deemed to be realizable.

The Company maintains an ASC 740-10, Accounting for Uncertainty in Income Taxes, liability for unrecognized tax benefits for permanent and temporary differences. At June 30, 2016, the Company s liability, exclusive of interest, totals approximately $3,196. The Company reduced the amount of unrecognized tax benefits during the quarter, primarily as a result of lapses in statutes. The Company accrued an immaterial amount of interest expense related to these unrecognized tax benefits during the quarter. 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.

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 2012 and state and local examinations for years before 2011, 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 2008. 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.

6. Pensions and Postretirement Benefits Other than Pensions

The following tables disclose the amount of net periodic benefit costs for the three- and six-months ended June 30, 2016 and 2015 for the Company s defined benefit plans and other postretirement benefits:

	Pension Benefits - Domestic			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Components of net periodic benefit cost:				
Service cost	**$ 2,403**	$ 2,759	**$ 4,806**	$ 5,518
Interest cost	**10,617**	10,051	**21,233**	20,101
Expected return on plan assets	**(13,391)**	(13,665)	**(26,783)**	(27,330)
Amortization of actuarial loss	**9,576**	9,878	**19,152**	19,757
Net periodic benefit cost	**$ 9,205**	$ 9,023	**$ 18,408**	$ 18,046

	Pension Benefits - International			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Components of net periodic benefit cost:				
Service cost	**$ 2**	$ 2	**$ 4**	$ 5
Interest cost	**3,737**	3,972	**7,461**	7,902
Expected return on plan assets	**(3,002)**	(3,112)	**(5,992)**	(6,191)
Amortization of actuarial loss	**1,361**	1,809	**2,717**	3,600
Net periodic benefit cost	**$ 2,098**	$ 2,671	**$ 4,190**	$ 5,316

	Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Components of net periodic benefit cost:				
Service cost	**$ 537**	$ 628	**$ 1,074**	$ 1,256
Interest cost	**2,705**	2,580	**5,410**	5,160
Amortization of prior service cost	**(142)**	(142)	**(283)**	(283)
Net periodic benefit cost	**$ 3,100**	$ 3,066	**$ 6,201**	$ 6,133

Domestic Pension Plans Lump Sum Offering

In order to reduce the size and potential future volatility of the Company s domestic defined benefit pension plan obligations, the Company has offered approximately 1,200 former employees who have deferred vested pension plan benefits a one-time option to receive a lump sum distribution of their benefits by the end of 2016. The vested benefit obligation associated with these former employees is approximately $42,000, equivalent to about 4 percent of the Company s benefit obligation for the domestic plans.

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Eligible participants had until July 31, 2016 to make their election. Based upon the percentage of eligible participants that chose the lump sum option, the Company will recognize a one-time, non-cash settlement charge in the third quarter estimated to be between $14 million and $18 million. The lump sum payments will be funded from existing pension plan assets and will occur by the end of the third quarter of 2016.

7. 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:

	2016	2015
Reserve at beginning of year	**$ 12,339**	$ 14,005
Additions	**4,792**	4,824
Payments	**(5,121)**	(6,089)
Reserve at June 30	**$ 12,010**	$ 12,740

8. 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 shareholder s interest:

	Total Parent Stockholders Equity	Total Equity Noncontrolling Shareholder Interest in Consolidated Subsidiary	Total Stockholders Equity
Balance at December 31, 2015	$ 979,248	$ 38,363	$ 1,017,611
Net income	129,754	369	130,123
Other comprehensive loss	(5,841)	(1,796)	(7,637)
Share repurchase program	(54,130)		(54,130)
Stock compensation plans	10,990		10,990
Cash dividends - $0.210 per share	(11,584)		(11,584)
Balance at June 30, 2016	$ 1,048,437	$ 36,936	$ 1,085,373

9. Share Repurchase Programs

On August 6, 2014, the Board of Directors authorized the repurchase of up to $200,000 of the Company s outstanding common stock pursuant to an accelerated share repurchase program, and the Company entered into a $200,000 accelerated share repurchase program (the ASR program) with J.P. Morgan Chase Bank (the ASR Counterparty). The Company paid $200,000 to the ASR Counterparty in August 2014 and received 5,567,154 shares of its common stock, which represented approximately 80 percent of the shares expected to be purchased pursuant to the ASR program, based on the closing price on August 6, 2014. Under the terms of the ASR program, the ASR Counterparty was permitted, in accordance with the applicable requirements of the federal securities laws, to separately trade in the Company s shares in connection with the hedging activities related to the ASR program and as part of other aspects of the ASR Counterparty s business.

On February 13, 2015, the Company completed the ASR program. Based on the terms of the ASR program, the total number of shares repurchased under the ASR program was based on the volume-weighted average price of the Company s common stock, less a discount, during the repurchase period, which resulted in the Company receiving an additional 784,694 shares of its common stock from the ASR Counterparty at maturity. As a result, under the ASR program, the Company paid a total of $200,000 to the ASR Counterparty and received a total of 6,351,848 shares (5,567,154 shares initially received, plus 784,694 shares received at maturity) of its common stock, which represents a volume weighted average price, as adjusted pursuant to the terms of the ASR program, of $31.49 over the duration of the ASR program.

On February 20, 2015, the Board of Directors authorized a new program to repurchase up to $200,000, excluding commissions, of the Company s common stock through December 31, 2016 (the Repurchase Program). The Repurchase Program did not obligate the Company to acquire any specific number of shares and could have been suspended or discontinued at any time without notice. Under the Repurchase Program, shares could have been 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.

During 2015, subsequent to the Board of Directors February 20, 2015 authorization, the Company repurchased 2,751,454 shares of the Company s common stock under the Repurchase Program for $108,821, including applicable commissions, which represented an average price of $39.55 per share. As of December 31, 2015, approximately $91,261 remained of the $200,000 Repurchase Program.

For the period January 1, 2016 through February 19, 2016, the Company repurchased an additional 497,094 shares of the Company s common stock under the Repurchase Program for $17,622, including applicable commissions, which represented an average price of $35.45 per share. All repurchases under the Repurchase Program were made using cash resources.

On February 19, 2016, the Board of Directors increased the amount under and expanded the duration of the Repurchase Program (as amended, the Amended Repurchase Program). The Amended Repurchase Program amended and superseded the Repurchase Program and allows the Company to repurchase up to $200,000, excluding commissions, of the Company s common stock from February 22, 2016 through December 31, 2017. The approximately $73,654 remaining under the Repurchase Program as of February 19, 2016 is included in the $200,000 maximum amount authorized by the Amended Repurchase Program. No other changes were made. The Amended 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 Amended 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.

For the period February 22, 2016 through June 30, 2016, the Company repurchased 1,087,115 shares of the Company s common stock under the Amended Repurchase Program for $36,508, including applicable commissions, which

represented an average price of $33.58 per share. As of June 30, 2016, approximately $163,524 remained of the $200,000 Amended Repurchase Program. All repurchases under the Amended Repurchase Program were made using cash resources.

In the first half of 2016, the Company repurchased 1,584,209 shares of the Company s common stock under the Repurchase Program and the Amended Repurchase Program for $54,130, including applicable commissions, which represented an average price of $34.17 per share.

Since the share repurchases began in August 2014 through June 30, 2016, the Company has repurchased 10,687,511 shares of the Company s common stock at an average cost of $33.96 per share.

10. Stock-Based Compensation

The Company s incentive compensation plans allow the Company to grant awards to certain employees in the form of stock options, stock awards, restricted stock units, stock appreciation rights, performance stock units, dividend equivalents and other awards. Compensation related to these awards is determined based on the grant-date fair value and is amortized to expense over the vesting period. The Company recognizes compensation expense based on the earlier of the vesting date or the date when the employee becomes eligible to retire without forfeiture of the award. If awards can be settled in cash, these awards are recorded as liabilities and marked to market.

The following table discloses the amount of stock-based compensation expense for the three- and six-month periods ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Stock options	**$ 27**	$ 2,323	**$ 458**	$ 3,378
Restricted stock units	**1,946**	1,888	**3,769**	3,082
Performance stock units	**2,974**	1,887	**5,472**	2,214
Total stock-based compensation	**$ 4,947**	$ 6,098	**$ 9,699**	$ 8,674

Stock Options

In February 2013, employees participating in the 2013-2015 Long-Term Incentive Plan were granted 330,639 stock options which vest one-third each year through February 2016. In February 2014, employees participating in the 2014-2016 Long-Term Incentive Plan were granted 380,064 stock options which vest one-third each year through February 2017. No stock options were granted in the three- or six-month periods ended June 30, 2016 or 2015, respectively.

The following table provides details of the stock option activity for the six months ended June 30, 2016:

	Number of Shares
Outstanding at December 31, 2015	668,132
Exercised	(141,117)
Expired	(1,596)
Canceled	(4,398)

Outstanding at June 30, 2016	521,021
Exercisable	*406,794*

Restricted Stock Units

In February 2016, employees participating in the 2016-2018 Long-Term Incentive Plan were granted 106,287 restricted stock units which vest one-third each year through February 2019. In February 2015, employees participating in the 2015-2017 Long-Term Incentive Plan were granted 105,102 restricted stock units which vest one-third each year through February 2018. Compensation related to the restricted stock units granted is determined based on the fair value of the Company s stock on the date of grant and is amortized to expense over the vesting period. The weighted average fair values of restricted stock units granted in 2016 and 2015 were $36.67 and $36.78, respectively.

The following table provides details of the nonvested restricted stock unit activity for the six months ended June 30, 2016:

	Number of Restricted Stock Units
Nonvested at December 31, 2015	197,388
Granted	109,287
Vested	(34,981)
Canceled	(1,487)
Accrued dividend equivalents	1,771
Nonvested at June 30, 2016	271,978

Performance Stock Units

Employees participating in the Company s Long-Term Incentive Plan earn performance stock units. Under the Company s 2016 2018 Long-Term Incentive Plan, any units earned during 2016 will vest at December 31, 2018. Under the Company s 2015 2017 Long-Term Incentive Plan, any units earned during 2015 and 2016 will vest at December 31, 2017. Under the Company s 2014 2016 Long-Term Incentive Plan, any units earned during 2014, 2015 and 2016 will vest at December 31, 2016.

The following table provides details of the nonvested performance stock units under the Company s Long-Term Incentive Plan:

	Number of Performance Stock Units
Performance stock units outstanding at December 31, 2015	191,536
Granted	109,581
Canceled	(1,574)
Accrued dividend equivalents	1,307
Performance stock units outstanding at June 30, 2016	300,850

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

11. Changes in Accumulated Other Comprehensive Loss by Component

The following tables present the changes in Accumulated Other Comprehensive Loss by Component for the three- and six-month periods ended June 30, 2016 and 2015, respectively.

	Cumulative Translation Adjustment	Derivative Instruments	Post-retirement Benefits	Total
Beginning balance, March 31, 2016	(24,788)	71	(482,220)	(506,937)
Other comprehensive (loss) income before reclassifications	(20,641)	(312)	5,234	(15,719)
Income tax effect		102		102
Amount reclassified from accumulated other comprehensive income (loss)				
Cash flow hedges		17		17
Amortization of prior service credit			(142)	(142)
Amortization of actuarial losses			10,937	10,937
Income tax effect		(12)	(3,854)	(3,866)
Other comprehensive (loss) income	(20,641)	(205)	12,175	(8,671)
Ending balance June 30, 2016	(45,429)	(134)	(470,045)	(515,608)

	Cumulative Translation Adjustment	Derivative Instruments	Post-retirement Benefits	Total
Beginning balance, March 31, 2015	(2,699)	7,450	(531,729)	(526,978)
Other comprehensive income (loss) before reclassifications	9,845	(3,800)	(6,257)	(212)
Income tax effect		1,492		1,492
Amount reclassified from accumulated other comprehensive income (loss)				
Cash flow hedges		(2,664)		(2,664)
Amortization of prior service credit			(142)	(142)
Amortization of actuarial losses			11,687	11,687
Income tax effect		1,072	(4,104)	(3,032)
Other comprehensive income (loss)	9,845	(3,900)	1,184	7,129
Ending balance June 30, 2015	7,146	3,550	(530,545)	(519,849)

	Cumulative Translation Adjustment	Derivative Instruments	Post-retirement Benefits	Total
Beginning balance, December 31, 2015	(22,034)	3,454	(491,187)	(509,767)
Other comprehensive (loss) income before reclassifications	(23,395)	(4,356)	7,263	(20,488)

Income tax effect		1,659		1,659
Amount reclassified from accumulated other comprehensive income (loss)				
Cash flow hedges		(1,395)		(1,395)
Amortization of prior service credit			(283)	(283)
Amortization of actuarial losses			21,869	21,869
Income tax effect		504	(7,707)	(7,203)
Other comprehensive (loss) income	(23,395)	(3,588)	21,142	(5,841)
Ending balance June 30, 2016	(45,429)	(134)	(470,045)	(515,608)

	Cumulative Translation Adjustment	Derivative Instruments	Post-retirement Benefits	Total
Beginning balance, December 31, 2014	9,059	4,762	(544,423)	(530,602)
Other comprehensive (loss) income before reclassifications	(1,913)	4,946	(991)	2,042
Income tax effect		(1,762)		(1,762)
Amount reclassified from accumulated other comprehensive income (loss)				
Cash flow hedges		(6,990)		(6,990)
Amortization of prior service credit			(283)	(283)
Amortization of actuarial losses			23,357	23,357
Income tax effect		2,594	(8,205)	(5,611)
Other comprehensive (loss) income	(1,913)	(1,212)	13,878	10,753
Ending balance June 30, 2015	7,146	3,550	(530,545)	(519,849)

12. Comprehensive Income Attributable to Noncontrolling Shareholder Interests

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Net income attributable to noncontrolling shareholder interests	**$ 602**	$ 894	**$ 369**	$ 2,295
Other comprehensive loss:				
Currency translation adjustments	**(1,598)**	(552)	**(1,796)**	(1,652)
Comprehensive (loss) income attributable to noncontrolling shareholder interests	**$ (996)**	$ 342	**$ (1,427)**	$ 643

13. Contingent Liabilities

Product Liability Claims

The Company is a defendant in various product liability claims brought in numerous jurisdictions in which individuals seek damages resulting from motor vehicle accidents allegedly caused by defective tires manufactured by the Company. Each of the product liability claims faced by the Company generally involve different types of tires, models and lines, different circumstances surrounding the accident such as different applications, vehicles, speeds, road conditions, weather conditions, driver error, tire repair and maintenance practices, service life conditions, as well as different jurisdictions and different injuries. In addition, in many of the Company s 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, radial medium truck and motorcycle tires per year in North America. The Company estimates that approximately 300 million Company-produced tires made up of thousands of different specifications are still on the road in North America. While tire disablements do occur, it is the Company s and the tire industry s experience that the vast majority of tire failures relate to service-related conditions, which are entirely out of the Company s control such as failure to maintain proper tire pressure, improper maintenance, road hazard and excessive speed.

The Company accrues costs for 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. The liability often cannot be determined with precision until the claim is resolved.

Pursuant to applicable accounting rules, the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. The Company uses a range of losses because an average cost would not be meaningful since the 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. Because of the speculative nature of litigation in the U.S., the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The Company s experience has demonstrated that its estimates have been reasonably accurate and, on average, cases are settled at amounts close to the reserves established. However, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

The Company determines its reserves using the number of incidents expected during a year. During the first six months of 2016, the Company increased its product liability reserve by $24,663. The addition of another year of self-insured incidents accounted for $24,512 of this increase. Settlements and changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by $151.

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 paid $8,371 during the second quarter of 2016 to resolve cases and claims and has paid $13,346 through the first six months of 2016. The Company s product liability reserve balance at June 30, 2016 totaled $175,366 (the current portion of $70,177 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, 2015 totaled $163,890 (current portion of $74,018).

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 offset by recoveries of legal fees. Legal costs are expensed as incurred and product liability insurance premiums are amortized over coverage periods.

For the three-month periods ended June 30, 2016 and 2015, product liability expenses totaled $18,920 and $21,065, respectively. For the six-month periods ended June 30, 2016 and 2015, product liability expenses totaled $35,014 and $43,537, respectively. Product liability expenses are included in Cost of goods sold in the Condensed Consolidated Statements of Income.

Federal Securities Litigation

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

merit and intend to defend the lawsuit vigorously. On July 1, 2015, the court dismissed the plaintiffs amended complaint and closed the case. The plaintiffs have filed an appeal of the dismissal order.

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for these proceedings at the time a loss is probable and the amount of the loss can be estimated.

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

Stockholder Derivative Litigation

On February 24, March 6, and April 17, 2014, purported stockholders of the Company filed derivative actions on behalf of the Company in the U.S. District Court for the Northern District of Ohio and the U.S. District Court for the District of Delaware against certain officers and employees and the then current members of the Company s board of directors. The lawsuits have been transferred to the U.S. District Court for the District of Delaware and consolidated under the caption Fitzgerald v. Armes, et al., No. 1:14-cv-479 (D. Del.). The Company is named as a nominal defendant in the lawsuits, and the lawsuits seek recovery for the benefit of the Company. The plaintiffs allege that the defendants breached their fiduciary duties to the Company by issuing allegedly misleading disclosures in connection with the terminated merger transaction and that the defendants violated Section 14(a) of the Securities Exchange Act of 1934 by means of the same allegedly misleading disclosures. The plaintiffs also assert claims for waste of corporate assets, unjust enrichment, gross mismanagement and abuse of control. The complaints seek, among other things, unspecified money damages from the defendants, injunctive relief and an award of attorney s fees. A purported stockholder of the Company has also submitted a demand to the Company s board of directors that it cause the Company to bring claims against certain of the Company s officers and directors for the matters alleged in the stockholder derivative lawsuits; following an investigation, the board of directors determined that the actions requested in the demand were not in the Company s interests and accordingly rejected the demand.

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated.

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

14. Business Segments

The Company has four segments under ASC 280, Segments :

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

North America and Latin America meet the criteria for aggregation in accordance with ASC 280, as they are similar in their production and distribution processes and exhibit similar economic characteristics. The aggregated North America and Latin America segments are presented as Americas Tire Operations in the segment disclosure. The Americas Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. The segment also has a joint venture manufacturing operation in Mexico, Corporacion de Occidente SA de CV (COOCSA), which supplies passenger car tires to the U.S., Mexican, Central American and South American markets. The segment also distributes tires for racing, medium truck and motorcycles. The racing and motorcycle tires are manufactured in the Company s European Operations segment and by others. The medium truck tires are sourced predominantly through an off-take agreement with Cooper Chengshan (Shandong) Tire Company Ltd. (CCT), the Company s former joint venture, which is now known as Prinx Chengshan (Shandong) Tire Company Ltd. 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.

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 have 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 light vehicle tires primarily for the European markets and for export to the U.S. The Asian operations are located in the People s Republic of China (PRC). In the PRC, Cooper Kunshan Tire manufactures light vehicle tires both for export to markets outside of the PRC and for the Chinese domestic market. The segment also had a joint venture in the PRC, CCT, which manufactured and marketed radial and bias medium truck tires, as well as passenger 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 now procures these tires under off-take agreements through mid-2018 from this entity. The majority of the tires manufactured by the segments are sold in the replacement market, with a portion also sold to original equipment manufacturers.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Net sales				
Americas Tire				
External customers	**$ 641,037**	$ 658,193	**$ 1,208,199**	$ 1,240,237
Intercompany	**13,684**	14,823	**25,859**	31,293
	654,721	673,016	**1,234,058**	1,271,530
International Tire				
External customers	**99,257**	93,588	**181,870**	174,750
Intercompany	**24,421**	31,263	**45,035**	57,203
	123,678	124,851	**226,905**	231,953
Eliminations	**(38,105)**	(46,086)	**(70,894)**	(88,496)
Consolidated net sales	**$ 740,294**	$ 751,781	**$ 1,390,069**	$ 1,414,987
Operating profit (loss):				
Americas Tire	**$ 116,093**	$ 108,566	**$ 222,146**	$ 198,564
International Tire	**3,152**	(3,633)	**1,380**	(6,426)
Unallocated corporate charges	**(8,730)**	(5,782)	**(21,749)**	(24,668)
Eliminations	**(599)**	277	**(757)**	2,312
Operating profit	**109,916**	99,428	**201,020**	169,782
Interest expense	**(6,286)**	(6,240)	**(12,921)**	(12,597)
Interest income	**948**	514	**1,888**	1,075
Other non-operating income	**1,427**	1,592	**2,888**	1,672
Income before income taxes	**$ 106,005**	$ 95,294	**$ 192,875**	$ 159,932

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

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollar amounts in thousands except per share amounts)	**2016**	% Change	2015	**2016**	% Change	2015
Net sales						
Americas Tire						
External customers	**$ 641,037**	(2.6)	$ 658,193	**$ 1,208,199**	(2.6)	$ 1,240,237
Intercompany	**13,684**	(7.7)	14,823	**25,859**	(17.4)	31,293
	654,721	(2.7)	673,016	**1,234,058**	(2.9)	1,271,530
International Tire						
External customers	**99,257**	6.1	93,588	**181,870**	4.1	174,750
Intercompany	**24,421**	(21.9)	31,263	**45,035**	(21.3)	57,203
	123,678	(0.9)	124,851	**226,905**	(2.2)	231,953
Eliminations	**(38,105)**	17.3	(46,086)	**(70,894)**	19.9	(88,496)
Consolidated net sales	**$ 740,294**	(1.5)	$ 751,781	**$ 1,390,069**	(1.8)	$ 1,414,987
Operating profit (loss):						
Americas Tire	**$ 116,093**	6.9	$ 108,566	**$ 222,146**	11.9	$ 198,564
International Tire	**3,152**	186.8	(3,633)	**1,380**	121.5	(6,426)
Unallocated corporate charges	**(8,730)**	(51.0)	(5,782)	**(21,749)**	11.8	(24,668)
Eliminations	**(599)**	n/m	277	**(757)**	n/m	2,312
Operating profit	**109,916**	10.5	99,428	**201,020**	18.4	169,782
Interest expense	**(6,286)**	0.7	(6,240)	**(12,921)**	2.6	(12,597)
Interest income	**948**	84.4	514	**1,888**	75.6	1,075
Other non-operating income	**1,427**	(10.4)	1,592	**2,888**	72.7	1,672
Income before income taxes	**106,005**	11.2	95,294	**192,875**	20.6	159,932
Provision for income taxes	**34,654**	(0.5)	34,818	**62,752**	9.5	57,294
Net income	**71,351**	18.0	60,476	**130,123**	26.8	102,638
Noncontrolling shareholder interests	**602**	(32.7)	894	**369**	(83.9)	2,295

Net income attributable to Cooper Tire & Rubber Company	**$**	**70,749**	18.7	$	59,582	**$**	**129,754**	29.3	$	100,343
Basic earnings per share	**$**	**1.29**	23.6	$	1.04	**$**	**2.35**	34.9	$	1.74
Diluted earnings per share	**$**	**1.27**	23.5	$	1.03	**$**	**2.32**	35.0	$	1.72

n/m not meaningful

Consolidated net sales for the three-month period ended June 30, 2016 were $740 million, a decrease of $12 million from the comparable period one year ago. Increased unit volumes ($7 million) were more than offset by less favorable pricing and mix ($8 million). The unfavorable pricing and mix was primarily due to net price reductions related to lower raw material costs. Currency impacts were unfavorable ($11 million) compared with the second quarter of 2015.

The Company recorded operating profit of $110 million in the second quarter of 2016 compared with operating profit of $99 million in the second quarter of 2015. Favorable raw material costs net of price and mix ($23 million) and higher unit volumes ($2 million) were partially offset by increased manufacturing costs ($5 million). The increased manufacturing costs were primarily in the Americas and included higher costs related to the greater complexity of manufacturing more higher value, higher margin tires. Selling, general and administrative costs increased ($10 million) and other costs decreased ($1 million) compared with the second quarter of 2015.

Consolidated net sales for the six-month period ended June 30, 2016 were $1,390 million, a decrease of $25 million from the comparable period one year ago. Increased unit volumes ($19 million) were more than offset by less favorable pricing and mix ($25 million) and unfavorable exchange rates ($19 million) compared with the first half of 2015. The unfavorable pricing and mix was primarily due to net price reductions related to lower raw material costs.

The Company recorded operating profit in the first half of 2016 of $201 million, an increase of $31 million compared with the first half of 2015. The Company experienced favorable raw material costs net of price and mix ($46 million) and higher unit volumes ($3 million). Manufacturing costs increased ($11 million) compared to the six-month period ended June 30, 2015 primarily as a result of higher costs related to the greater complexity of manufacturing more higher value, higher margin tires in the Americas. Additionally, manufacturing costs increased in Latin America as a result of non-recurring costs in our Mexican operation related to manufacturing process changes that took place in the first quarter of 2016. Product liability charges ($9 million) decreased compared with the first six months of 2015. Selling, general and administrative costs increased ($7 million) and other operating costs increased ($9 million), including unfavorable currency impacts, compared with the first half of 2015.

The Company experienced decreases in the costs of certain of its principal raw materials in the first six months of 2016 compared with the first six months of 2015. The principal raw materials for the Company include natural rubber, synthetic rubber, carbon black, chemicals and steel reinforcement components. Approximately 65 percent of the Company s raw materials are petroleum-based. Substantially all U.S. inventories have been valued using the LIFO method of inventory costing which accelerates the impact to cost of goods sold from changes to raw material prices.

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

Product liability expenses totaled $19 million in the second quarter of 2016, a decrease of $2 million from the comparable period one year ago. Product liability expenses totaled $35 million in the first six months of 2016, a decrease of $9 million from the first six months of 2015. The change in the expense results from claim settlements and adjustments to existing reserves based on the Company s quarterly comprehensive review of outstanding claims. Additional information related to the Company s accounting for product liability costs appears in the Notes to the Condensed Consolidated Financial Statements.

Selling, general, and administrative expenses were $70 million in the second quarter of 2016 (9.4 percent of net sales) and $60 million in the second quarter of 2015 (8.0 percent of net sales). The increase in selling, general and administrative expenses was driven primarily by an increase in brand and marketing program expense, higher

incentive compensation and higher mark to market costs of stock based liabilities. For the six-month period ended June 30, 2016, selling, general and administrative expenses were $129 million (9.3 percent of net sales) compared with $122 million (8.6 percent of net sales) for the comparable period of 2015. The increase in selling, general, and administrative expenses was driven by an increase in brand and marketing program expense and higher incentive compensation. These increases were partially offset by lower mark to market costs of stock based liabilities and lower professional fees.

Interest expense and interest income in the second quarter of 2016 have remained comparable to the second quarter of 2015. Interest expense in the first half of 2016 has remained comparable to the first half of 2015. Interest income increased $1 million in the first half of 2016 compared with the first half of 2015.

Other income in the second quarter of 2016 has remained comparable to the second quarter of 2015. Other income increased $1 million in the first half of 2016 compared with the first half of 2015, due primarily to the impact of foreign currency forward contracts.

For the quarter ended June 30, 2016, the Company recorded income tax expense of $35 million (effective rate of 32.7 percent) as compared with $35 million (effective rate of 36.5 percent) for the comparable period in 2015. For the six-month period ended June 30, 2016, the Company recorded tax expense of $63 million (effective rate of 32.5 percent) compared with $57 million (effective rate of 35.8 percent) for the comparable period in 2015. The 2016 quarter and six-month period income tax expense is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. This is impacted by the projected mix of earnings in the U.S. and in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances.

Income tax expense for the current quarter is comparable to the same period from the prior year on greater earnings due to a lower forecasted annual effective tax rate that is the result of a higher mix of earnings in international jurisdictions with lower tax rates. Income tax expense for the six-month period is higher compared to the same period from the prior year due to increased earnings, primarily in the U.S., partially offset by the benefit of a higher mix of earnings in international jurisdictions with lower tax rates. In addition, both the current quarter and six-month periods were favorably impacted by a reduction in the Company s liability for unrecognized tax benefits as a result of lapses in statutes.

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 $2 million. In addition, the Company has recorded valuation allowances of $13 million relating to non-U.S. net operating losses for a total valuation allowance of $15 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 disclosure.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	**Change**	**2015**	**2016**	**Change**	**2015**
(Dollar amounts in thousands)						
Net sales	**$ 654,721**	-2.7%	$ 673,016	**$ 1,234,058**	-2.9%	$ 1,271,530
Operating profit	**$ 116,093**	6.9%	$ 108,566	**$ 222,146**	11.9%	$ 198,564
Operating margin	**17.7%**	1.6 points	16.1%	**18.0%**	2.4 points	15.6%
Total unit sales change		-1.8%			-1.2%	
United States replacement market unit shipment changes:						
Total light vehicle tires						
Segment		-3.4%			-2.5%	
RMA members		-3.5%			-1.7%	
Total Industry		-3.9%			1.2%	

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 U.S., Mexican, Central American and South American markets. The segment also distributes tires for racing, medium trucks and motorcycles. The racing and motorcycle tires are manufactured in the Company s European Operations segment and by others. The medium truck tires are sourced predominantly through an off-take agreement that was entered into with CCT subsequent to the Company s sale of its ownership interest in this former joint venture. Major distribution channels and customers include independent tire dealers, wholesale distributors, regional and national retail tire chains, and large retail chains that sell tires as well as other automotive products. The segment does not currently sell its products directly to end users, except through three Company-owned retail stores. The segment sells a limited number of tires to original equipment manufacturers.

Sales

Net sales of the Americas Tire Operations segment for the second quarter of 2016 decreased $18 million, or 2.7 percent, from the second quarter of 2015. The decrease in sales was a result of decreased unit volumes ($12 million), unfavorable pricing and mix ($1 million) and unfavorable exchange rates ($5 million). The unfavorable pricing and mix was primarily due to net price reductions related to lower raw material costs. Unit shipments for the segment decreased 1.8 percent compared with the second quarter of 2015. In the U.S., the segment s unit shipments of total light vehicle tires decreased 3.4 percent in the second quarter of 2016 compared with the second quarter of 2015. This decrease compares with a 3.5 percent decrease in total light vehicle tire shipments experienced by the members of the Rubber Manufacturers Association (RMA), and a 3.9 percent decrease in total light vehicle tire shipments experienced for the total industry (which includes an estimate for non-RMA members). The decline in the quarter was driven primarily by a decline in private label shipments.

Net sales of the Americas Tire Operations segment for the first half of 2016 decreased $37 million, or 2.9 percent, from the first six months of 2015. The decrease in sales was a result of decreased unit volumes ($15 million), unfavorable pricing and mix ($11 million) and unfavorable exchange rates ($11 million). The unfavorable pricing and mix was primarily due to net price reductions related to lower raw material costs. Unit shipments for the segment decreased 1.2 percent compared with the first half of 2015. In the U.S., the segment s unit shipments of total light vehicle tires decreased 2.5 percent in 2016 compared with 2015. This decrease compares with a 1.7 percent decrease in total light vehicle tire shipments experienced by the RMA and a 1.2 percent increase in total light vehicle tire shipments experienced for the total industry. The decline in the first half was driven by reduced private label shipments.

Operating Profit

Operating profit for the segment increased $7 million to $116 million in the second quarter of 2016. Favorable raw material costs net of price and mix ($23 million), were partially offset by lower unit volumes ($3 million). Manufacturing costs increased ($6 million), which included costs related to the greater complexity of manufacturing more higher value, higher margin tires in North America. Selling, general and administrative costs ($7 million) were higher in the second quarter of 2016 as a result of an increase in brand and marketing program expense and higher incentive compensation.

Operating profit for the segment for the first half of 2016 increased $23 million to $222 million in the first half of 2016. Favorable raw material costs net of price and mix ($50 million) were partially offset by lower unit volumes ($5 million). Manufacturing costs increased ($11 million) compared to the six-month period ended June 30, 2015 primarily as a result of higher costs related to the greater complexity of manufacturing more higher value, higher margin tires in the Americas. Additionally, manufacturing costs increased in Latin America as a result of non-recurring costs in our Mexican operation related to manufacturing process changes that took place in the first quarter of 2016. Product liability charges ($9 million) decreased compared with the first six months of 2016. Selling, general and administrative costs ($12 million) were higher in the first half of 2016 as a result of an increase in brand and marketing program expense and higher incentive compensation. Other operating costs were unfavorable ($8 million), including unfavorable currency impacts, compared with the same period in 2015.

The segment s internally calculated raw material index of 135.5 during the quarter was a decrease of 11.7 percent from the second quarter of 2015. The raw material index increased 3.0 percent from the quarter ended March 31, 2016.

International Tire Operations Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	**Change**	**2015**	**2016**	**Change**	**2015**
(Dollar amounts in thousands)						
Net sales	**$ 123,678**	-0.9%	$ 124,851	**$ 226,905**	-2.2%	$ 231,953
Operating profit	**$ 3,152**	186.8%	$ (3,633)	**$ 1,380**	121.5%	$ (6,426)
Operating margin	**2.5%**	5.4 points	-2.9%	**0.6%**	3.4 points	-2.8%
Total unit sales change		2.5%			3.5%	

Overview

The International Tire Operations segment is the combination of the Asia and Europe operating segments. The European operations have manufacturing facilities 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 light vehicle tires primarily for the European markets and for export to the U.S. The Asian operations are located in the PRC. In the PRC, Cooper Kunshan Tire manufactures light vehicle tires both for export to markets outside of the PRC and for the Chinese domestic market. The segment also had a joint venture in the PRC, CCT, which manufactured and marketed radial and bias medium truck 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 now procures these tires under off-take agreements through mid-2018 from this entity. The majority of the tires manufactured by the International Tire Operations segment are sold in the replacement market, with a portion also sold to original equipment manufacturers.

Sales

Net sales of the International Tire Operations segment for the second quarter of 2016 decreased $1 million, or 0.9 percent, from the second quarter of 2015. The segment experienced increased unit volumes ($5 million), which were more than offset by unfavorable price and mix ($1 million) and unfavorable exchange rates ($5 million) compared with the second quarter of 2015. Unit volumes increased in Europe due to higher exports into the United States. Unit volume in Asia declined, driven by a reduction in exports to the United States, partially offset by increased sales in the domestic China market for both original equipment and replacement tires. Net exports to the US decreased compared with the second quarter of 2015.

Net sales of the International Tire Operations segment for the first half of 2016 decreased $5 million, or 2.2 percent, from the first half of 2015. The segment experienced increased unit volumes ($10 million), which were more than offset by less favorable price and mix ($7 million) and unfavorable exchange rates ($8 million) compared with the first half of 2015. The year-to-date factors impacting sales volume are consistent with those discussed for the second quarter.

Operating Profit

Operating profit for the segment improved $7 million from the second quarter of 2015 to an operating profit of $3 million in the second quarter of 2016. Favorable raw material costs net of price and mix ($6 million) and decreased selling, general and administrative expenses ($1 million) contributed to the increase in operating profit.

Operating profit for the segment for the first half of 2016 increased $7 million from the first half of 2015 to an operating profit of $1 million in the first half of 2016. The segment experienced favorable raw material costs net of

price and mix ($6 million), increased unit volumes ($2 million) and decreased selling, general, and administrative expenses ($2 million) in the first six months of 2016. Other costs ($3 million), including unfavorable currency impacts, increased compared with the first half of 2015.

Outlook for Company

For the second half of 2016, the Company expects unit volume growth in each of its segments. The Company expects the full year 2016 operating margin, excluding the impact of acquisitions and non-cash pension settlement charges, to be modestly above 2015 levels. This projection includes an estimate for the impact of the pending truck and bus radial tire tariffs.

The International segment, excluding the impact of acquisitions, is expected to perform better than originally anticipated and be near break-even operating profit for the full year 2016.

The Company expects a non-cash pension settlement charge of $14 million to $18 million in the third quarter of 2016 related to optional lump-sum payments of benefits offered to certain former employees. This option was offered to reduce the size and potential future volatility of the Company s domestic defined benefit pension plan obligations.

The Company anticipates a modest increase in raw material costs in the second half of 2016 compared to the second quarter of 2016.

The Company expects capital expenditures to range between $210 million and $240 million for the full year. The Company projects its effective tax rate for 2016 to be between 33 percent and 35 percent.

Liquidity and Capital Resources

Sources and uses of cash in operating activities - Net cash provided by operating activities was $69 million in the first half of 2016. Net income provided $130 million and other non-cash charges contributed $77 million, which were largely offset by changes in working capital accounts, which consumed $138 million. Net cash provided by operating activities was $47 million in the first half of 2015. Net income provided $103 million and other non-cash charges contributed $40 million, which were largely offset by changes in work capital accounts, which consumed $96 million.

Use of cash in investing activities Net cash used in investing activities during the first six months of 2016 and 2015 reflect capital expenditures of $85 million and $89 million, respectively.

Sources and uses of cash in financing activities The Company repurchased $54 million and $60 million of its common stock in the first half of 2016 and 2015, respectively. During the first half of 2016, the Company repaid $9 million on short-term debt. In the first half of 2015, the Company repaid $44 million of short-term debt, including the repayment of $40 million of 2014 borrowings on its domestic credit lines. Dividends paid on the Company s common shares in the first six months of 2016 and 2015 were $12 million for both periods. During the first half of 2016, stock options were exercised to acquire 141,117 shares of common stock with a cash impact of $3 million, including $156 thousand of excess tax benefits on equity instruments. During the first half of 2015, stock options were exercised to acquire 766,313 shares of common stock with a cash impact of $17 million, including $3 million of excess tax benefits on equity instruments.

Available cash, credit facilities and contractual commitments At June 30, 2016, the Company had cash and cash equivalents of $412 million.

Domestically, the Company has a revolving credit facility with a consortium of banks that provides up to $400 million based on available collateral, including a $110 million letter of credit subfacility, and expires in May 2020. The

Company also has an accounts receivable securitization facility with a borrowing limit of up to $150 million, based on available collateral, which expires in May 2018.

These credit facilities are undrawn, other than to secure letters of credit, at June 30, 2016. The Company s additional borrowing capacity, net of amounts used to back letters of credit and based on available collateral at June 30, 2016, was $521 million.

The Company s operations in Asia have annual renewable unsecured credit lines that provide up to $100 million of borrowings and do not contain significant financial covenants. The additional borrowing capacity on the Asian credit lines totaled $96 million at June 30, 2016.

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 subsidiary, 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 June 30, 2016 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 June 30, 2016:

Parent company	
8% unsecured notes due December 2019	**$ 173,578**
7.625% unsecured notes due March 2027	**116,880**
Capitalized leases and other	**6,862**
	297,320
Less: unamortized debt issuance costs	**867**
	296,453
Less: current maturities	**600**
	$ 295,853

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 involve different types of tires, models and lines, different circumstances surrounding the accident such as different applications, vehicles, speeds, road conditions, weather conditions, driver error, tire repair and maintenance practices, service life conditions, as well as different jurisdictions and different injuries. In addition, in many of the Company s 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 applicable accounting rules, the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. The Company uses a range of losses because an average cost would not be meaningful since the 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. Because of the speculative nature of litigation in the U.S., the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The Company s experience has demonstrated that its estimates have been reasonably accurate and, on average, cases are settled at amounts close to the reserves established. However, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

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 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 in accordance with contract specifications;

- changes to tariffs or the imposition of new tariffs or trade restrictions, including changes related to the anti-dumping and countervailing duties for passenger car and light truck tires imported into the United States from China; and any duties from the ongoing investigation into truck and bus tires imported into the United States from China

- changes in economic and business conditions in the world, including changes related to the United Kingdom s referendum on withdrawal from the European Union;

- increased competitive activity including actions by larger competitors or lower-cost producers;

- the failure to achieve expected sales levels;

changes in the Company s customer relationships, including loss of particular business for competitive or other reasons;

the ultimate outcome of litigation brought against the Company, including stockholders lawsuits relating to the terminated Apollo merger as well as product liability claims, in each case which could result in commitment of significant resources and time to defend and possible material damages against the Company or other unfavorable outcomes;

a disruption in, or failure of, the Company s information technology systems, including those related to cyber security, 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, salary increase rate, and expected return on plan assets assumptions, or changes to related accounting regulations;

government regulatory and legislative initiatives including environmental and healthcare matters;

volatility in the capital and financial markets or changes to the credit markets and/or access to those markets;

changes in interest or foreign exchange rates;

an adverse change in the Company s credit ratings, which could increase borrowing costs and/or hamper access to the credit markets;

failure to implement information technologies or related systems, including failure by the Company to successfully implement an ERP system;

the risks associated with doing business outside of the United States;

the failure to develop technologies, processes or products needed to support consumer demand;

technology advancements;

the inability to recover the costs to develop and test new products or processes;

the impact of labor problems, including labor disruptions at the Company, its joint venture, or at one or more of its large customers or suppliers;

failure to attract or retain key personnel;

consolidation among the Company s competitors or customers;

inaccurate assumptions used in developing the Company s strategic plan or operating plans or the inability or failure to successfully implement such plans;

any unforeseen circumstances that arise that cause the Board of Directors to alter its succession plans for the leadership of the Company;

risks relating to acquisitions, such as the proposed acquisition of a majority interest in China based Qingdao Ge Rui Da Rubber Co., Ltd., including the failure to successfully complete acquisitions or integrate them into operations or their related financings may impact liquidity and capital resources;

changes in the Company s relationship with its joint-venture partner or suppliers, including any changes with respect to the production of Cooper-branded products by CCT, the Company s former joint venture in China;

the ability to find alternative sources for products supplied by CCT;

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 June 30, 2016, from those detailed in the Company s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2015.

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 June 30, 2016 (Evaluation Date)). Based on its initial evaluation, the Company s CEO and CFO concluded that its disclosure controls and procedures were effective as of the Evaluation Date.

There were no changes in the Company s internal control over financial reporting that occurred during the quarter ended June 30, 2016 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 June 30, 2016. 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.

Federal Securities Litigation

On January 17, 2014, alleged stockholders of the Company filed a putative class-action lawsuit against the Company and certain of its officers in the United States District Court for the District of Delaware relating to the terminated merger agreement with subsidiaries of Apollo Tyres Ltd. That lawsuit, captioned OFI Risk Arbitrages, et al. v. Cooper Tire & Rubber Co., et al., No. 1:14-cv-00068-LPS, generally alleges that the Company and certain officers violated the federal securities laws by issuing allegedly misleading disclosures in connection with the terminated transaction and seeks, among other things, damages. The Company and its officers believe that the allegations against them lack merit and intend to defend the lawsuit vigorously. On July 1, 2015, the court dismissed the plaintiffs amended complaint and closed the case. The plaintiffs have filed an appeal of the dismissal order.

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for these proceedings at the time a loss is probable and the amount of the loss can be estimated.

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

Stockholder Derivative Litigation

On February 24, March 6, and April 17, 2014, purported stockholders of the Company filed derivative actions on behalf of the Company in the U.S. District Court for the Northern District of Ohio and the U.S. District Court for the District of Delaware against certain officers and employees and the then current members of the Company s board of directors. The lawsuits have been transferred to the U.S. District Court for the District of Delaware and consolidated under the caption Fitzgerald v. Armes, et al., No. 1:14-cv-479 (D. Del.). The Company is named as a nominal defendant in the lawsuits, and the lawsuits seek recovery for the benefit of the Company. The plaintiffs allege that the defendants breached their fiduciary duties to the Company by issuing allegedly misleading disclosures in connection with the terminated merger transaction and that the defendants violated Section 14(a) of the Securities Exchange Act of 1934 by means of the same allegedly misleading disclosures. The plaintiffs also assert claims for waste of corporate assets, unjust enrichment, gross mismanagement and abuse of control. The complaints seek, among other things, unspecified money damages from the defendants, injunctive relief and an award of attorney s fees. A purported stockholder of the Company has also submitted a demand to the Company s board of directors that it cause the Company to bring claims against certain of the Company s officers and directors for the matters alleged in the stockholder derivative lawsuits; following an investigation, the board of directors determined that the actions

requested in the demand were not in the Company s interests and accordingly rejected the demand.

The Company regularly reviews the probable outcome of such legal proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated.

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

Item 1A. RISK FACTORS

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

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

The pricing volatility for natural rubber, petroleum-based materials and other raw materials contributes to the difficulty in managing the costs of raw materials. Costs for certain raw materials used in the Company s operations, including natural rubber, chemicals, carbon black, steel reinforcements and synthetic rubber remain highly volatile. Increasing costs for raw material supplies will increase the Company s production costs and affect its margins if the Company is unable to pass the higher production costs on to its customers in the form of price increases. 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 current business environment.

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

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

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

In addition, the bankruptcy, restructuring or consolidation of one or more of the Company s major customers due to current global economic conditions 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 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 imposed by various governments. Other effects, including impacts on the price of tires, responsive actions from other

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 preliminary determinations announced in both investigations were affirmative and resulted in the imposition of additional duties from each. The preliminary determinations were upheld and became permanent on August 10, 2015.

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 determination in the countervailing duty investigation was affirmative and the decision is pending in the anti-dumping investigation. The Company is not yet able to determine what impact, if any, they will have on the Company. The imposition of additional duties in the U.S. on certain tires imported from the PRC could result in higher costs and lower margins or 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 is facing supply risks related to certain tires it purchases from CCT.

In 2014, the Company sold its ownership interest in CCT and entered into off-take agreements with CCT to provide the continuous supply of certain tires for the Company. The off-take agreements expire in mid-2018. If there are any disruptions in or quality issues with the supply of Cooper-branded products from CCT, it could have a material negative impact on the Company s business. In addition, the Company could be required to find an alternative source for CCT-produced tires and there can be no assurance that the Company will be able to do so in a timely manner. CCT is currently the sole supplier of medium truck tires for the Company.

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

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

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

The Company routinely evaluates potential acquisitions and may pursue acquisition opportunities, some of which could be material to its business, such as the proposed purchase of a majority of China based Qingdao Ge Rui Da Rubber Co., Ltd. The Company cannot provide assurance whether it will be successful in pursuing any acquisition opportunities or what the consequences of any acquisition would be. The Company may encounter various risks in any acquisitions, including:

- the possible inability to integrate an acquired business into its operations;
- diversion of management s attention;
- loss of key management personnel;
- unanticipated problems or liabilities; and

increased labor and regulatory compliance costs of acquired businesses.

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

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

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

The Company 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, including purported class action lawsuits, derivative lawsuits and other litigation related to the now terminated merger agreement with the Apollo entities. Due to the inherent uncertainties of any litigation, commercial disputes or other legal proceedings, the Company cannot accurately predict their ultimate outcome, including the outcome of any related appeals. An unfavorable outcome could materially adversely impact the Company s financial condition, cash flows and results of operations.

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

The Company has affiliate, subsidiary and joint venture operations worldwide, including in the U.S., the U.K., Europe, Mexico and the PRC. The Company has one manufacturing entity, Cooper Kunshan, in the PRC. The Company also is the majority owner of COOCSA, a manufacturing entity in Mexico, and has established an operation in Serbia. In 2014, the Company entered into off-take agreements with CCT, subsequent to the Company s sale of its ownership interest in this former joint venture, to continue supplying tires to the Company. CCT is currently the sole supplier of medium truck tires for the Company. 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.

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. 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 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 referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last two years or longer after the government of the United Kingdom formally initiates a 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 in the event of a 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 our business, financial condition and results of operations.

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.

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

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

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

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

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

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

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 facility construction, expansions and 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.

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

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

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

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

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 and is continuing to enhance the system and implement it globally, which will require significant amounts of capital and human resources to deploy. These requirements may exceed the Company s projections. If for any reason this implementation is not successful, the Company could be required to expense rather than capitalize related amounts. Throughout implementation of the system there are also risks created to the Company s ability to successfully and efficiently operate.

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 CCT.

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

The Company s business depends on the continued service of key members of its management. The loss of the services of a significant number of members of its management team could have a material adverse effect on its business. The Company s future success will also depend on its ability to attract, retain and develop highly skilled personnel, such as engineering, marketing and senior management professionals. Competition for these employees is intense, especially in the PRC, and the Company could experience difficulty 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.

There is no assurance that the Board of Directors will take the actions set forth in the Company s previously announced succession plans and it is possible that the Company s succession plans may differ materially from expectations due to a variety of factors, including, but not limited to: (i) the expected Non-Executive Chairman of the Board s continued independence and (ii) any unforeseen circumstances that arise that cause the Board of Directors to alter its succession plans for the leadership of the Company.

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.

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.

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 could 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 may 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 we expect. 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 could have a significant negative impact on the Company s earnings or cash flow 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 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 non-U.S. net operating losses. The Company s assessment of the realizability of deferred tax assets is based on certain assumptions regarding future profitability, and potentially adverse business conditions could have a negative impact on the future realizability and therefore impact the Company s future operating results or financial position.

The Company may incur additional tax expense or become subject to additional tax exposure.

The Company s provision for income taxes and the cash outlays required to satisfy its income tax obligations in the future could be adversely affected by numerous factors. These factors include changes in the level of earnings in the tax jurisdictions in which the Company operates, changes in plans to repatriate the earnings of the Company s foreign operations to the U.S. and changes in tax laws and regulations. Specifically, recent proposed regulations by the U.S. Treasury Department and Internal Revenue Service could restrict the Company s ability to move cash between jurisdictions, or increase the cost of such movements. 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 an outcome 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, 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 and Brazilian real, fluctuations in foreign currency exchange rates may impact the Company s financial condition, results of operations and cash flows. 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 revenue recognition, financial instruments, leasing, and others. Any such changes could have a negative impact on the Company s financial statements.

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

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

Item 2. ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth a summary of the Company s purchases during the quarter ended June 30, 2016 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	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
April 1, 2016 through April 30, 2016 (1)	226,828	$ 36.44	226,828	$ 184,544
May 1, 2016 through May 31, 2016 (1)	192,984	$ 32.35	192,984	$ 178,308
June 1, 2016 through June 30, 2016 (1)	474,453	$ 31.19	474,453	$ 163,524
Total	894,265		894,265	

(1) On February 20, 2015, the Board of Directors authorized a program to repurchase up to $200,000, excluding commissions, of the Company s common stock through December 31, 2016 (the Repurchase Program). On February 19, 2016, the Board of Directors increased the amount authorized under and extended the duration of the Repurchase Program (as amended, the Amended Repurchase Program). The Amended Repurchase Program amended and superseded the Repurchase Program and allows the Company to repurchase up to $200,000, excluding commissions, of the Company s common stock from February 22, 2016 through December 31, 2017. The approximately $73,654 remaining under the Repurchase Program as of February 19, 2016 is included in the $200,000 maximum amount authorized by the Amended Repurchase Program. No other changes were made. The Amended 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 Amended 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)

August 4, 2016
(Date)