

COOPER TIRE & RUBBER CO  
Form 10-Q  
October 30, 2017

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
<sup>x</sup> 1934

For the quarterly period ended September 30, 2017

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  No

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

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

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

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

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

Number of shares of common stock of registrant outstanding as of October 25, 2017: 51,273,780



## 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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net sales	\$733,843	\$750,913	\$2,097,621	\$2,140,982
Cost of products sold	569,116	597,961	1,692,137	1,657,932
Gross profit	164,727	152,952	405,484	483,050
Selling, general and administrative expense	63,350	63,262	180,605	192,339
Pension settlement charge	—	11,462	—	11,462
Operating profit	101,377	78,228	224,879	279,249
Interest expense	(7,591 )	(6,795 )	(23,629 )	(19,717 )
Interest income	1,776	1,018	5,333	2,907
Other non-operating (expense) income	(978 )	1,785	(1,468 )	4,672
Income before income taxes	94,584	74,236	205,115	267,111
Provision for income taxes	31,924	23,757	67,250	86,509
Net income	62,660	50,479	137,865	180,602
Net income attributable to noncontrolling shareholders' interests	973	1,176	307	1,545
Net income attributable to Cooper Tire & Rubber Company	\$61,687	\$49,303	\$137,558	\$179,057
Earnings per share:				
Basic	\$1.19	\$0.91	\$2.62	\$3.26
Diluted	\$1.18	\$0.90	\$2.59	\$3.23
Cash dividends declared per share	\$0.105	\$0.105	\$0.315	\$0.315

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$62,660	\$50,479	\$137,865	\$180,602
Other comprehensive income (loss)				
Foreign currency translation adjustments	8,675	(10,946)	38,247	(36,137)
Financial instruments				
Change in the fair value of derivatives	(290)	1,173	(3,367)	(4,578)
Income tax benefit (provision) on derivative instruments	95	(420)	1,206	1,743
Financial instruments, net of tax	(195)	753	(2,161)	(2,835)
Postretirement benefit plans				
Amortization of actuarial loss	10,665	10,820	31,887	32,690
Amortization of prior service credit	(141)	(141)	(424)	(424)
Actuarial loss	—	(26,494)	—	(26,494)
Pension settlement charge	—	11,462	—	11,462
Income tax (provision) benefit on postretirement benefit plans	(3,731)	6,314	(11,175)	(1,366)
Foreign currency translation effect	(2,437)	2,513	(7,004)	9,748
Postretirement benefit plans, net of tax	4,356	4,474	13,284	25,616
Other comprehensive income (loss)	12,836	(5,719)	49,370	(13,356)
Comprehensive income	75,496	44,760	187,235	167,246
Less: comprehensive income (loss) attributable to noncontrolling shareholders' interests	1,467	(144)	4,980	(1,571)
Comprehensive income attributable to Cooper Tire & Rubber Company	\$74,029	\$44,904	\$182,255	\$168,817
See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.				

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

	September 30, 2017 (Unaudited)	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$258,362	\$ 504,423
Notes receivable	15,213	7,485
Accounts receivable, less allowances of \$7,496 at 2017 and \$7,290 at 2016	512,626	409,913
Inventories:		
Finished goods	415,983	338,887
Work in process	32,926	29,922
Raw materials and supplies	124,822	101,342
	573,731	470,151
Other current assets	54,028	28,546
Total current assets	1,413,960	1,420,518
Property, plant and equipment:		
Land and land improvements	53,350	47,767
Buildings	310,173	282,960
Machinery and equipment	1,855,041	1,742,449
Molds, cores and rings	234,056	224,662
	2,452,620	2,297,838
Less: accumulated depreciation	1,525,634	1,433,611
Net property, plant and equipment	926,986	864,227
Goodwill	56,361	52,705
Intangibles, net of accumulated amortization of \$88,342 at 2017 and \$77,321 at 2016	135,776	140,751
Restricted cash	1,376	1,327
Deferred income tax assets	133,455	133,879
Other assets	5,634	5,988
Total assets	\$2,673,548	\$ 2,619,395
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Notes payable	\$36,056	\$ 26,286
Accounts payable	266,033	282,416
Accrued liabilities	186,261	183,804
Income taxes payable	38,897	5,887
Current portion of long-term debt	1,464	2,421
Total current liabilities	528,711	500,814
Long-term debt	296,084	297,094
Postretirement benefits other than pensions	247,551	247,227
Pension benefits	252,701	285,852
Other long-term liabilities	115,606	156,924
Deferred income tax liabilities	670	1,248
Equity:		

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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	20,949	25,876
Retained earnings	2,441,911	2,321,424
Accumulated other comprehensive loss	(500,454 )	(545,151 )
	2,050,256	1,889,999
Less: common shares in treasury at cost (36,346,576 at 2017 and 34,850,512 at 2016)	(876,951 )	(813,985 )
Total parent stockholders' equity	1,173,305	1,076,014
Noncontrolling shareholders' interests in consolidated subsidiary	58,920	54,222
Total equity	1,232,225	1,130,236
Total liabilities and equity	\$2,673,548	\$2,619,395

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2017	2016
Operating activities:		
Net income	\$137,865	\$180,602
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	106,652	96,928
Stock-based compensation	3,711	11,800
Change in LIFO inventory reserve	(14,413 )	(3,426 )
Amortization of unrecognized postretirement benefits	31,463	32,266
Pension settlement charge	—	11,462
Changes in operating assets and liabilities:		
Accounts and notes receivable	(99,767 )	(67,940 )
Inventories	(75,628 )	(89,877 )
Other current assets	(25,121 )	(13,788 )
Accounts payable	(25,621 )	13,370
Accrued liabilities	4,884	21,956
Other items	(58,250 )	(13,725 )
Net cash (used in) provided by operating activities	(14,225 )	179,628
Investing activities:		
Additions to property, plant and equipment and capitalized software	(143,067 )	(126,921 )
Proceeds from the sale of assets	42	331
Net cash used in investing activities	(143,025 )	(126,590 )
Financing activities:		
Net payments on short-term debt	(6,393 )	(645 )
Repayments of long-term debt	(600 )	(600 )
Repurchase of common stock	(70,198 )	(82,486 )
Payments of employee taxes withheld from shared-based awards	(6,669 )	(2,948 )
Payment of dividends to noncontrolling shareholder	(282 )	(804 )
Payment of dividends to Cooper Tire & Rubber Company stockholders	(16,548 )	(17,242 )
Issuance of common shares related to stock-based compensation	4,091	3,533
Excess tax benefits on stock options	—	177
Net cash used in financing activities	(96,599 )	(101,015 )
Effects of exchange rate changes on cash	7,788	(6,832 )
Net change in cash and cash equivalents	(246,061 )	(54,809 )
Cash and cash equivalents at beginning of year	504,423	505,157
Cash and cash equivalents at end of period	\$258,362	\$450,348
See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.		

COOPER TIRE & RUBBER COMPANY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands except per-share amounts)

1. Basis of Presentation and Consolidation

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

There is a year-round demand for the Company's tires, but sales of light vehicle replacement tires are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of June through November. Operating results for the nine month period ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ended December 31, 2017.

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

Truck and Bus Tire Tariffs

Antidumping and countervailing duty investigations into certain truck and bus tires imported from the People's Republic of China ("PRC") into the United States were initiated on January 29, 2016. The preliminary determinations announced in both investigations were affirmative and resulted in the imposition of significant additional duties from each. The Company incurred expense of \$22,042 over the final seven months of the year-ended December 31, 2016 related to these additional duties. On February 22, 2017, the United States ("U.S.") International Trade Commission determined the U.S. market had not suffered material injury because of imports of truck and bus tires from China. As a result of this decision, preliminary antidumping and countervailing duties from Chinese truck and bus tires imported subsequent to the preliminary determination are not to be collected and any amounts previously paid will be refunded by U.S. Customs and Border Protection. Further, prospective imports of truck and bus tires from the PRC are not subject to these additional duties. In the first quarter of 2017, the Company reversed the previously expensed preliminary duties of \$22,042 due to the decision by the U.S. International Trade Commission. This amount was recorded as a reduction of cost of products sold in the Condensed Consolidated Statement of Income for the nine month period ended September 30, 2017.

North American Distribution Center

On January 22, 2017, a tornado hit the Company's leased Albany, Georgia distribution center, causing damage to the Company's assets and disrupting certain operations. Insurance, less applicable deductibles, covers the repair or replacement of the Company's assets that suffered loss or damage, and the Company is working closely with its insurance carriers and claims adjusters to ascertain the full amount of insurance proceeds due to the Company as a result of the damages and the loss the Company suffered. The Company's insurance policies also provide coverage for interruption to its business, including lost profits, and reimbursement for other expenses and costs that have been incurred relating to the damages and losses suffered. In the third quarter of 2017, the Company recorded insurance recoveries of \$1,000 for direct costs caused by the tornado through the first nine months of 2017, while incurring direct costs of \$2,157 in the third quarter related to professional fees to secure and maintain the site and for the rental of additional storage facilities. Through the first nine months of 2017, the Company incurred direct expenses of

\$11,353 related to the disposal of damaged tires, freight to move product to other warehouses, professional fees to secure and maintain the site and for the rental of additional storage facilities, less proceeds of \$6,500 recovered from insurance. These amounts were recorded as a component of cost of products sold in the Condensed Consolidated Statement of Income for the three and nine month periods ended September 30, 2017. At this time, the full amount of combined property damage and business interruption costs and recoveries cannot be estimated, and accordingly, no additional amounts, including amounts for insurance recoveries, have been recorded as of September 30, 2017.

#### 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

##### Stock Compensation

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which simplifies several aspects of the accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory withholding requirements, as well as classification in the Condensed Consolidated Statements of Cash Flows. Application of the standard is required for the annual and interim periods beginning after December 15, 2016. The Company adopted the standard in the first quarter of 2017. As a result of the adoption, on a prospective basis, we recognized \$85 and \$2,024 of excess tax benefits from stock-based compensation as discrete items in our provision for income taxes for the three and nine months ended September 30, 2017, respectively. Additionally, the cash flow benefit of the excess tax benefits is included as an operating activity in the Condensed Consolidated Statement of Cash Flows for the period ended September 30, 2017. In accordance with the standard, the prior year Condensed Consolidated Statement of Income and Condensed Consolidated Statement of Cash Flows presentation of the Company’s excess tax benefits have not been restated. The new standard also requires that employee taxes paid when an employer withholds shares for tax-withholding purposes be reported as financing activities in the Condensed Consolidated Statements of Cash Flows on a retrospective basis. Previously, this activity was included in operating activities. The impact of this change in the first nine months of 2017 and first nine months of 2016 was \$6,669 and \$2,948, respectively. Finally, as permitted by the standard, we will account for forfeitures of share-based payments when they occur.

#### 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 of the standard 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. In July 2015, the FASB approved the deferral of the new standard’s effective date by one year. The new standard is effective for annual reporting periods beginning after December 15, 2017. In 2016, the FASB issued several amendments to the standard, which provided clarification, additional guidance, practical expedients, technical corrections and other improvements to ASU 2014-09.

The guidance permits two methods of adoption: the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective transition method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application.

The Company has substantially completed its evaluation of significant contracts and the review of its current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to the Company’s revenue contracts. In addition, the Company has identified, and is in the process of implementing, appropriate changes to business processes, systems and controls to support recognition and disclosure under the new standard.

While a final decision has not been made, the Company expects to adopt the new revenue standard in the first quarter of 2018 applying the modified retrospective transition method. The Company does not expect the adoption of the new revenue standard to have a material impact on the amount and timing of revenue recognized in the Company's condensed consolidated financial statements.

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#### 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.

#### Goodwill

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

#### Pensions and Postretirement Benefits Other than Pensions

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires changes to the income statement presentation of net periodic benefit cost. The service cost component of net periodic benefit cost will continue to be classified in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component and outside of operating profit. In addition, the new standard will allow only the service cost component to be eligible for capitalization, when applicable. Application of the standard, which should be applied retrospectively for the income statement presentation changes and prospectively for the capitalization changes, is required for the annual and interim periods beginning after December 15, 2017. Early adoption is permitted if adopted in the first interim period of the fiscal year. As reported in the Company's 2016 Form 10-K, 2016 and 2015 net periodic benefit costs were \$64,842 and \$58,384, respectively. The service cost component of these amounts in 2016 and 2015, which will remain as a component of operating profit, were \$11,771 and \$13,559, respectively. Net income will not change as a result of the adoption of this standard. The Company is currently evaluating the remaining impacts the new standard will have on its condensed consolidated financial statements.

#### Derivatives and Hedging

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

#### 2. GRT Acquisition

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

The down payment of \$5,929, as well as an additional \$8,090 at the time of closing, were paid to the non-controlling shareholder of GRT. In December 2016, the Company contributed an additional \$35,842 to GRT to purchase

additional shares issued by GRT, as well as to fund working capital requirements. The Company contributed \$14,570 in the first quarter of 2017, and an additional \$22,125 to GRT in the second quarter of 2017 to fund working capital requirements. In total, the Company has invested \$86,556 related to GRT, with \$14,019 paid directly to a third party and the remainder invested in GRT.

The GRT acquisition has been accounted for as a purchase transaction. The total consideration has been allocated to the preliminary assets acquired, liabilities assumed and noncontrolling shareholder interest based on their estimated fair values at

December 1, 2016. The excess purchase price over the estimated fair value of the net assets acquired has been allocated to goodwill. Goodwill consists of anticipated growth opportunities for GRT and is recorded in the Asia Operations segment. Goodwill is not deductible for federal income tax purposes.

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

	As Originally		As Adjusted
Assets	Reported	Adjustments	
Cash	\$ 8,091	\$ —	\$ 8,091
Accounts receivable	2,844	—	2,844
Notes receivable	3,050	—	3,050
Inventory	7,983	—	7,983
Other current assets	981	—	981
Property, plant & equipment	46,712	(1,321 )	45,391
Intangible assets	7,412	16	7,428
Other long-term assets	289	—	289
Goodwill	33,861	2,024	35,885
<b>Liabilities</b>			
Accounts payable	(61,570 )	(719 )	(62,289 )
Notes payable	(10,122 )	—	(10,122 )
Accrued liabilities	(2,866 )	—	(2,866 )
Long-term debt	(3,383 )	—	(3,383 )
Other long-term liabilities	(940 )	—	(940 )
	32,342	—	32,342
Noncontrolling shareholder interest	(18,323 )	—	(18,323 )
Cooper Tire & Rubber Company consideration	\$ 14,019	\$ —	\$ 14,019

The Company has determined that the nonrecurring fair value measurements related to each of these assets and liabilities rely primarily on Company-specific inputs and the Company's assumptions about the use of the assets and settlement of liabilities, as observable inputs are not available and, as such, reside within Level 3 of the fair value hierarchy as defined in Footnote 5. The Company utilized a third party to assist in the fair value determination of certain components of the preliminary purchase price allocation, namely Property, plant and equipment and the Noncontrolling shareholder interest. Changes to these allocations may occur as additional information becomes available and the appraisals and valuations become finalized. The valuation of Property, plant and equipment was developed using primarily the cost approach. The fair value of the Noncontrolling shareholder interest was determined based upon internal and external inputs considering various relevant market transactions and discounted cash flow valuation methods, among other factors.



### 3. 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator				
Numerator for basic and diluted earnings per share - Net income attributable to common stockholders	\$61,687	\$49,303	\$137,558	\$179,057
Denominator				
Denominator for basic earnings per share - weighted average shares outstanding	52,042	54,055	52,555	54,869
Effect of dilutive securities - stock options and other stock units	393	625	491	590
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	52,435	54,680	53,046	55,459
Earnings per share:				
Basic	\$1.19	\$0.91	\$2.62	\$3.26
Diluted	\$1.18	\$0.90	\$2.59	\$3.23

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 September 30, 2017 and 2016.

### 4. Inventories

Inventory costs are determined using the last-in, first-out ("LIFO") method for substantially all U.S. inventories. The current cost of the U.S. inventories under the first-in, first-out ("FIFO") method was \$478,971 and \$409,034 at September 30, 2017 and December 31, 2016, respectively. These FIFO values have been reduced by approximately \$70,700 and \$85,113 at September 30, 2017 and December 31, 2016, 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 LIFO inventories are stated at the lower of cost or market. All other inventories are stated at the lower of cost or net realizable value.

### 5. 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 and cash flow 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, Chinese yuan and Serbian dinar generally for transactions expected to occur within the next 12 months. Additionally, the Company utilizes cash flow hedges that hedge already recognized intercompany loans with maturities of up to four years. The notional amount of these foreign currency derivative instruments at September 30, 2017 and December 31, 2016 was \$136,961 and \$89,414, 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 \$(2,997) and \$1,029 as of September 30, 2017 and December 31, 2016, respectively) are recorded as

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a separate component of stockholders' equity in the accompanying Condensed Consolidated Balance Sheets and reclassified into earnings as the hedged transactions occur.

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

The Company assesses hedge effectiveness, prospectively and retrospectively, based on regression of the change in foreign currency exchange rates. Time value of money is included in effectiveness testing. The Company measures ineffectiveness on a trade by trade basis, using the hypothetical derivative method. Any hedge ineffectiveness is recorded in the Condensed Consolidated Statements of Income in the period in which the ineffectiveness occurs. The derivative instruments are subject to master netting arrangements with the counterparties to the contracts. The following table presents the location and amounts of derivative instrument fair values in the Condensed Consolidated Balance Sheets:

	September 30, 2017	December 31, 2016
Assets/(liabilities)		
Designated as hedging instruments:		
Gross amounts recognized	\$ (3,207 )	\$ 1,029
Gross amounts offset	210	—
Net amounts	\$ (2,997 )	\$ 1,029
Not designated as hedging instruments:		
Gross amounts recognized	(120 )	109
Gross amounts offset	225	(76 )
Net amounts	\$ 105	\$ 33
Net amounts presented:		
Accrued current liabilities	\$ (2,083 )	\$ —
Other long-term liabilities	\$ (809 )	\$ —
Other current assets	\$ —	\$ 1,062

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 September 30, 2017		Nine Months Ended September 30, 2016	
Derivatives Designated as Cash Flow Hedges				
Amount of (Loss) Gain Recognized in Other Comprehensive Income on Derivatives (Effective Portion)	\$ (3,010)	\$ 599	\$ (5,734)	\$ (3,757)
Amount of (Loss) Gain Reclassified from Cumulative Other Comprehensive Loss into Income (Effective Portion)	(2,720 )	(574 )	(2,367 )	821

	Amount of (Loss) Gain Recognized in Income on Derivatives				
Location of (Loss) Gain Recognized in Income on Derivatives	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	
Derivatives not Designated as Hedging Instruments					
Foreign exchange contracts	Other non-operating (expense) income	\$ (1,448)	\$ 330	\$ (2,853 )	\$ 645

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

non-operating income (expense).

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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 currency derivative instruments was determined using widely accepted valuation techniques. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs, including forward points. The Company incorporated credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Although the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as current credit ratings, to evaluate the likelihood of default by itself and its counterparties. As of September 30, 2017 and December 31, 2016, 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:

	September 30, 2017			
	Total	Quoted Prices in Active Markets for Identical Assets (Liabilities)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
	Level (1)	Level (1)	Level (2)	Level (3)
Foreign Currency Derivative Instruments	\$(2,892 )	\$ —	\$ (2,892 )	\$ —
Stock-based Liabilities	\$(17,334 )	\$ (17,334 )	\$ —	\$ —
	December 31, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Liabilities)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
	Level (1)	Level (1)	Level (2)	Level (3)

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Foreign Currency Derivative Instruments	\$ 1,062	\$ —	\$ 1,062	\$ —
Stock-based Liabilities	\$(20,336)	\$(20,336)	\$ —	\$ —

The fair market value of Cash and cash equivalents, Notes receivable, Restricted cash, Notes payable and Current portion of long-term debt at September 30, 2017 and December 31, 2016 are equal to their corresponding carrying values as reported on

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the Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016, 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 \$330,647 and \$331,941 at September 30, 2017 and December 31, 2016, respectively, and is classified within Level 1 of the fair value hierarchy. The carrying value of Long-term debt is \$296,084 and \$297,094 as reported on the Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016, respectively.

#### 6. Income Taxes

For the three month period ended September 30, 2017, the Company recorded a provision for income taxes of \$31,924 (effective rate of 33.8 percent) compared with \$23,757 (effective rate of 32.0 percent) for the comparable period in 2016. For the nine month period ended September 30, 2017, the Company recorded a provision for income taxes of \$67,250 (effective rate of 32.8 percent) compared with \$86,509 (effective rate of 32.4 percent) for the comparable period in 2016. The 2017 three and nine month period provision for income taxes is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. The effective tax rate for the three month period ended September 30, 2017 differs from the U.S. federal statutory rate of 35 percent primarily due to the projected mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions where valuation allowances are recorded. The effective tax rate for the nine month period ended September 30, 2017 differs from the U.S. federal statutory rate of 35 percent primarily due to the projected mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions where valuation allowances are recorded, and due to a discrete tax benefit recognized as a result of the adoption of ASU 2016-09, "Improvements to Employee Share-Based Accounting," which requires all excess tax benefits or deficiencies from share-based payments to be recognized as income tax expense or benefit in the income statement. For the quarter and nine month periods ended September 30, 2017, the Company recognized excess tax benefits from share-based payments of \$85 and \$2,024, respectively.

The Company continues to maintain a valuation allowance pursuant to ASC 740, "Accounting for Income Taxes," against portions of its U.S. and non-U.S. deferred tax assets at September 30, 2017, as it cannot assure the future realization of the associated tax benefits prior to their reversal or expiration. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a loss carryforward by a valuation allowance of \$2,350. In addition, the Company has recorded valuation allowances of \$18,497 relating to non-U.S. net operating losses and other deferred tax assets for a total valuation allowance of \$20,847. In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when the associated deferred tax assets are deemed to be realizable.

The Company maintains an ASC 740-10, "Accounting for Uncertainty in Income Taxes," liability for unrecognized tax benefits for permanent and temporary differences. At September 30, 2017, the Company's liability, exclusive of interest, totals approximately \$2,266. The Company accrued an immaterial amount of interest expense related to these unrecognized tax benefits during the quarter and nine month periods ended September 30, 2017. 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 2014 and state and local examinations for years before 2013, with limited exceptions. Non-U.S. subsidiaries of the Company are no longer subject to income tax examinations in major foreign taxing jurisdictions for years prior to 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.

## 7. Pensions and Postretirement Benefits Other than Pensions

The following tables disclose the amount of net periodic benefit costs for the three and nine months ended September 30, 2017 and 2016 for the Company's defined benefit plans and other postretirement benefits:

	Pension Benefits - Domestic			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Components of net periodic benefit cost:				
Service cost	\$2,465	\$2,403	\$7,395	\$7,210
Interest cost	9,813	10,617	29,439	31,850
Expected return on plan assets	(13,515)	(13,391)	(40,544)	(40,175)
Amortization of actuarial loss	9,281	9,576	27,842	28,729
Pension settlement charge	\$—	\$11,462	\$—	\$11,462
Net periodic benefit cost	\$8,044	\$20,667	\$24,132	\$39,076
	Pension Benefits - International			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Components of net periodic benefit cost:				
Service cost	\$—	\$2	\$—	\$7
Interest cost	2,927	3,417	8,557	10,877
Expected return on plan assets	(2,860)	(2,744)	(8,362)	(8,736)
Amortization of actuarial loss	1,384	1,244	4,045	3,961
Net periodic benefit cost	\$1,451	\$1,919	\$4,240	\$6,109
	Other Postretirement Benefits			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Components of net periodic benefit cost:				
Service cost	\$501	\$537	\$1,502	\$1,611
Interest cost	2,515	2,705	7,547	8,115
Amortization of prior service credit	(141)	(141)	(424)	(424)
Net periodic benefit cost	\$2,875	\$3,101	\$8,625	\$9,302

## Pension Settlement Charge

In order to reduce the size and potential future volatility of the Company's domestic defined benefit pension plan obligations, the Company extended an offer to approximately 1,200 former employees with deferred vested pension plan benefits. These former employees had the opportunity to make a one-time election to receive a lump-sum distribution of their benefits by the end of the third quarter of 2016. The vested benefit obligation associated with these former employees was approximately \$42,000, equivalent to about 4 percent of the Company's benefit obligation for the domestic plans.

Cash payments of \$22,701 were made from plan assets in September 2016 to the former employees electing the lump-sum distribution. These payments represented a reduction of approximately 2 percent of the Company's benefit obligation for the domestic plans. Based on the lump-sum distributions that were paid, the Company incurred a non-cash settlement charge of \$11,462 in the third quarter of 2016.



### 8. 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:

	2017	2016
Reserve at beginning of year	\$10,634	\$12,339
Additions	6,285	6,831
Payments	(6,538 )	(7,486 )
Reserve at September 30	\$10,381	\$11,684

### 9. Stockholders' Equity

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

	Total Equity		
	Total Parent Stockholders' Equity	Noncontrolling Shareholders' Interests in Consolidated Subsidiary	Total Stockholders' Equity
Balance at December 31, 2016	\$1,076,014	\$ 54,222	\$ 1,130,236
Net income	137,558	307	137,865
Other comprehensive income	44,697	4,673	49,370
Share repurchase program	(70,198 )	—	(70,198 )
Stock compensation plans	1,782	—	1,782
Cash dividends - \$0.315 per share	(16,548 )	—	(16,548 )
Dividend paid to noncontrolling shareholder	\$—	\$ (282 )	\$ (282 )
Balance at September 30, 2017	\$1,173,305	\$ 58,920	\$ 1,232,225

### 10. 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 "2014 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 2014 ASR Program, based on the closing price on August 6, 2014. Under the terms of the 2014 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 2014 ASR Program and as part of other aspects of the ASR Counterparty's business.

On February 13, 2015, the Company completed the 2014 ASR Program. Based on the terms of the 2014 ASR Program, the total number of shares repurchased under the 2014 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 2014 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 2014 ASR Program, of \$31.49 over the duration of the 2014 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 "2015 Repurchase Program"). The 2015 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 2015 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.

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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 2015 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 2015 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 2015 Repurchase Program for \$17,622, including applicable commissions, which represented an average price of \$35.45 per share. All repurchases under the 2015 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 2015 Repurchase Program (as amended, the "2016 Repurchase Program"). The 2016 Repurchase Program amended and superseded the 2015 Repurchase Program and allowed 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 2015 Repurchase Program as of February 19, 2016 was included in the \$200,000 maximum amount authorized by the 2016 Repurchase Program. No other changes were made. The 2016 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 2016 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.

For the period February 22, 2016 through December 31, 2016, the Company repurchased 2,630,433 shares of the Company's common stock under the 2016 Repurchase Program for \$90,377, including applicable commissions, which represented an average price of \$34.36 per share. As of December 31, 2016, approximately \$109,702 remained of the \$200,000 2016 Repurchase Program.

For the period January 1, 2017 through February 16, 2017, the Company repurchased an additional 383,690 shares of the Company's common stock under the 2016 Repurchase Program for \$14,080, including applicable commissions, which represented an average price of \$36.70 per share. All repurchases under the 2016 Repurchase Program were made using cash resources.

On February 16, 2017, the Board of Directors increased the amount under and expanded the duration of the 2016 Repurchase Program (as amended, the "2017 Repurchase Program"). The 2017 Repurchase Program amended and superseded the 2016 Repurchase Program and allows the Company to repurchase up to \$300,000, excluding commissions, of the Company's common stock through December 31, 2019. The approximately \$95,634 remaining authorization under the 2016 Repurchase Program as of February 16, 2017 is included in the \$300,000 maximum amount authorized by the 2017 Repurchase Program. No other changes were made. The 2017 Repurchase Program does not obligate the Company to acquire any specific number of shares and can be suspended or discontinued at any time without notice. Under the 2017 Repurchase Program, shares can be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

For the period February 17, 2017 through September 30, 2017, the Company repurchased an additional 1,559,995 shares of the Company's common stock under the 2017 Repurchase Program for \$56,118, including applicable commissions, which represented an average price of \$35.97 per share. All repurchases under the 2017 Repurchase Program have been made using cash resources.

In the first nine months of 2017, the Company repurchased 1,943,685 shares of the Company's common stock under the 2016 Repurchase Program and the 2017 Repurchase Program for \$70,198, including applicable commissions, which represented an average price of \$36.12 per share.

Since the share repurchases began in August 2014 through September 30, 2017, the Company has repurchased 14,174,514 shares of the Company's common stock at an average cost of \$34.36 per share.

#### 11. Stock-Based Compensation

The Company's incentive compensation plans allow the Company to grant awards to 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:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Stock options	\$—	\$26	\$14	\$484
Restricted stock units	768	1,348	2,550	5,117
Performance stock units	368	727	1,147	6,199
Total stock-based compensation	\$1,136	\$2,101	\$3,711	\$11,800

#### Stock Options

No stock options were granted in the nine month periods ended September 30, 2017 and 2016, respectively. In February 2014, employees participating in the 2014-2016 long-term incentive plan were granted 380,064 stock options, which vested one-third each year through February 2017. In February 2013, employees participating in the 2013-2015 long-term incentive plan were granted 330,639 stock options, which vested one-third each year through February 2016.

The following table provides details of the stock option activity for the nine months ended September 30, 2017:

	Number of Shares
Outstanding at December 31, 2016	495,704
Exercised	(208,268 )
Expired	—
Canceled	—
Outstanding at September 30, 2017	287,436
Exercisable	287,436

#### Restricted Stock Units

Under the Company's incentive compensation plans, restricted stock units may be granted to officers and certain other employees as awards for exceptional performance, as a hiring or retention incentive or as part of the long-term incentive plan. In February 2017, employees participating in the 2017-2019 long-term incentive plan were granted 82,563 restricted stock units which vest one-third each year through February 2020. 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. The Company recognizes compensation expense based on the earlier of the vesting date or the date when the employee becomes eligible to retire. Employees must remain employed for at least six months to vest in the restricted stock units, even if retirement eligible. The weighted average fair values of restricted stock units granted in the first nine months of 2017 and for the full year 2016 were \$38.36 and \$36.02, respectively.

The following table provides details of the nonvested restricted stock unit activity for the nine months ended September 30, 2017:

	Number of Restricted Stock Units
Nonvested at December 31, 2016	240,574
Granted	102,707
Vested	(135,799 )
Canceled	(7,829 )
Accrued dividend equivalents	1,857
Nonvested at September 30, 2017	201,510



## Performance Stock Units

Employees participating in the Company's long-term incentive plan earn performance stock units. Under the Company's 2017 – 2019 long-term incentive plan, any units earned during 2017 will vest at December 31, 2019. Under the Company's 2016 – 2018 long-term incentive plan, any units earned during 2016 and 2017 will vest at December 31, 2018. Under the Company's 2015 – 2017 long-term incentive plan, any units earned during 2015, 2016 and 2017 will vest at December 31, 2017.

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, 2016	163,967
Granted	64,208
Canceled	(6,807 )
Accrued dividend equivalents	1,437
Performance stock units outstanding at September 30, 2017	222,805

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 grant 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.

## 12. Changes in Accumulated Other Comprehensive Loss by Component

The following tables present the changes in Accumulated Other Comprehensive Loss by Component for the three and nine month periods ended September 30, 2017 and 2016, respectively.

	Cumulative Translation Adjustment	Derivative Instruments	Post-retirement Benefits	Total
Beginning balance, June 30, 2017	(50,022 )	1	(462,775 )	(512,796 )
Other comprehensive income (loss) before reclassifications	8,181	(3,010 )	—	5,171
Foreign currency translation effect	—	—	(2,437 )	(2,437 )
Income tax effect	—	985	—	985
Amount reclassified from accumulated other comprehensive income (loss)				
Cash flow hedges	—	2,720	—	2,720
Amortization of prior service credit	—	—	(141 )	(141 )
Amortization of actuarial losses	—	—	10,665	10,665
Pension settlement charge	—	—	—	—
Income tax effect	—	(890 )	(3,731 )	(4,621 )
Other comprehensive income (loss)	8,181	(195 )	4,356	12,342
Ending balance, September 30, 2017	(41,841 )	(194 )	(458,419 )	(500,454 )

	Cumulative Translation Adjustment	Derivative Instruments	Post-retirement Benefits	Total
Beginning balance, June 30, 2016	(45,429 )	(134 )	(470,045 )	(515,608)
Other comprehensive (loss) income before reclassifications	(9,626 )	599	(26,494 )	(35,521 )
Foreign currency translation effect	—	—	2,513	2,513
Income tax effect	—	(211 )	10,134	9,923
Amount reclassified from accumulated other comprehensive income (loss)	—	—	—	—
Cash flow hedges	—	574	—	574
Amortization of prior service credit	—	—	(141 )	(141 )
Amortization of actuarial losses	—	—	10,820	10,820
Pension settlement charge	—	—	11,462	11,462
Income tax effect	—	(209 )	(3,820 )	(4,029 )
Other comprehensive (loss) income	(9,626 )	753	4,474	(4,399 )
Ending balance, September 30, 2016	(55,055 )	619	(465,571 )	(520,007)
	Cumulative Translation Adjustment	Derivative Instruments	Post- retirement Benefits	Total
Beginning balance, December 31, 2016	(75,415 )	1,967	(471,703 )	(545,151)
Other comprehensive (loss) income before reclassifications	33,574	(5,734 )	—	27,840
Foreign currency translation effect	—	—	(7,004 )	(7,004 )
Income tax effect	—	1,893	—	1,893
Amount reclassified from accumulated other comprehensive income (loss)	—	—	—	—
Cash flow hedges	—	2,367	—	2,367
Amortization of prior service credit	—	—	(424 )	(424 )
Amortization of actuarial losses	—	—	31,887	31,887
Pension settlement charge	—	—	—	—
Income tax effect	—	(687 )	(11,175 )	(11,862 )
Other comprehensive (loss) income	33,574	(2,161 )	13,284	44,697
Ending balance, September 30, 2017	(41,841 )	(194 )	(458,419 )	(500,454)

	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	(33,021 )	(3,757 )	(26,494 )	(63,272 )
Foreign currency translation effect	—	—	9,748	9,748
Income tax effect	—	1,448	10,134	11,582
Amount reclassified from accumulated other comprehensive income (loss)				
Cash flow hedges	—	(821 )	—	(821 )
Amortization of prior service credit	—	—	(424 )	(424 )
Amortization of actuarial losses	—	—	32,690	32,690
Pension settlement charge	—	—	11,462	11,462
Income tax effect	—	295	(11,500 )	(11,205 )
Other comprehensive (loss) income	(33,021 )	(2,835 )	25,616	(10,240 )
Ending balance, September 30, 2016	(55,055 )	619	(465,571 )	(520,007)

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

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Net income attributable to noncontrolling shareholders' interests	\$973	\$1,176	\$307	\$1,545
Other comprehensive income (loss):				
Currency translation adjustments	494	(1,320 )	4,673	(3,116 )
Comprehensive income (loss) attributable to noncontrolling shareholders' interests	\$1,467	\$(144 )	\$4,980	\$(1,571)

### 14. Contingent Liabilities

#### Product Liability Claims

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

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



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

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

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

The Company regularly reviews the probable outcome of outstanding legal proceedings and the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated. As part of its regular review, the Company monitors trends that may affect its ultimate liability and analyzes the developments and variables likely to affect pending and anticipated claims against the Company and the reserves for such claims. The Company utilizes claims experience, as well as trends and developments in the litigation climate, in estimating its required accrual. Based on the Company's review completed in the third quarter, coupled with normal activity, including the addition of another year of self-insured incidents, settlements and changes in the amount of reserves, the Company reduced its accrual from \$168,163 at June 30, 2017 to \$131,541 at September 30, 2017. This change in estimate in the quarter is primarily the result of recent favorable claims experience and trends.

The addition of another year of self-insured incidents accounted for an increase of \$37,016 in the Company's product liability reserve in the first nine months of 2017. Settlements, changes in the amount of reserves for cases where sufficient information is known to estimate a liability, and changes in assumptions decreased the liability by \$38,004. The Company paid \$11,675 during the third quarter of 2017 to resolve cases and claims and has paid \$44,466 through the first nine months of 2017. The Company's product liability reserve balance at September 30, 2017 totaled \$131,541 (the current portion of \$45,626 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, 2016 totaled \$176,995 (current portion of \$58,054).

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

For the three month periods ended September 30, 2017 and 2016, product liability (income) expense totaled \$(20,989) and \$17,917, respectively. For the nine month period ended September 30, 2017 and 2016, product liability expense totaled \$11,458 and \$52,932, respectively. Product liability expenses are included in Cost of products sold in the Condensed Consolidated Statements of Income.

## 15. Business Segments

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

North America, composed of the Company's operations in the United States and Canada;

Latin America, composed of the Company's operations in Mexico, Central America and South America;

Europe; and

Asia.

North America and Latin America meet the criteria for aggregation in accordance with ASC 280, as they are similar in their production and distribution processes and exhibit similar economic characteristics. The aggregated North America and Latin America segments are presented as "Americas Tire Operations" in the segment disclosure. The Americas Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. The segment also has a joint venture manufacturing operation in Mexico, Corporacion de Occidente SA de CV ("COOCSA"), which supplies passenger car tires to the North American, Mexican, Central American and South American markets. The segment also distributes 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 from GRT and through an off-take agreement with Prinx Chengshan (Shandong) Tire Company Ltd. ("PCT"), the Company's 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 ("OEMs").

Both the Asia and Europe segments have been determined to be individually immaterial, as they do not meet the quantitative requirements for segment disclosure under ASC 280. In accordance with ASC 280, information about operating segments that are not reportable shall be combined and disclosed in an all other category separate from other reconciling items. As a result, these two segments have been combined in the segment operating results discussion. The results of the combined Asia and Europe segments are presented as "International Tire Operations". The European operations have operations in the United Kingdom ("U.K.") and Serbia. The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for domestic and global markets. The Serbian entity manufactures 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 the Chinese domestic market and for export to markets outside of the PRC. On December 1, 2016, the Company acquired 65 percent ownership of GRT, a joint venture manufacturing facility located in the PRC. GRT is expected to serve as a global source of truck and bus radial tire production for the Company. The segment also had another joint venture in the PRC, PCT, which manufactured and marketed 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 began procuring certain medium truck and passenger car tires under off-take agreements with PCT through mid-2018. The medium truck tire agreement has been extended and now expires in mid-2019. The segment sells a majority of its tires in the replacement market, with a portion also sold to OEMs.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net sales				
Americas Tire				
External customers	\$615,261	\$658,727	\$1,742,863	\$1,866,926
Intercompany	10,162	13,914	29,275	39,773
	625,423	672,641	1,772,138	1,906,699
International Tire				
External customers	118,582	92,186	354,758	274,056
Intercompany	44,763	20,603	101,922	65,637
	163,345	112,789	456,680	339,693
Eliminations	(54,925 )	(34,517 )	(131,197 )	(105,410 )
Consolidated net sales	\$733,843	\$750,913	\$2,097,621	\$2,140,982
Operating profit (loss):				
Americas Tire	\$117,465	\$101,522	\$263,951	\$323,667
International Tire	591	3,265	3,518	4,645
Unallocated corporate charges	(15,792 )	(26,442 )	(41,177 )	(48,191 )
Eliminations	(887 )	(117 )	(1,413 )	(872 )
Operating profit	101,377	78,228	224,879	279,249
Interest expense	(7,591 )	(6,795 )	(23,629 )	(19,717 )
Interest income	1,776	1,018	5,333	2,907
Other non-operating (expense) income	(978 )	1,785	(1,468 )	4,672
Income before income taxes	\$94,584	\$74,236	\$205,115	\$267,111

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

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

Consolidated Results of Operations

(Dollar amounts in thousands except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	% Change	2016	2017	% Change	2016
Net sales						
Americas Tire						
External customers	\$615,261	(6.6 )	\$658,727	\$1,742,863	(6.6 )	\$1,866,926
Intercompany	10,162	(27.0 )	13,914	29,275	(26.4 )	39,773
	625,423	(7.0 )	672,641	1,772,138	(7.1 )	1,906,699
International Tire						
External customers	118,582	28.6	92,186	354,758	29.4	274,056
Intercompany	44,763	117.3	20,603	101,922	55.3	65,637
	163,345	44.8	112,789	456,680	34.4	339,693
Eliminations	(54,925 )	(59.1 )	(34,517 )	(131,197 )	(24.5 )	(105,410 )
Consolidated net sales	\$733,843	(2.3 )	\$750,913	\$2,097,621	(2.0 )	\$2,140,982
Operating profit (loss):						