COOPER TIRE & RUBBER CO
Form 10-Q
August 04, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

o **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 incorporation or organization)	(I.R.S. employer identification no.)

701 Lima Avenue, Findlay, Ohio 45840
(Address of principal executive offices)
(Zip code)
(419) 423-1321
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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 þ No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Number of shares of common stock of registrant outstanding
at July 31, 2011: 62,257,749

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Part I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

	December 31, 2010 (Note 1)	**June 30, 2011 (Unaudited)**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 413,359	**$ 137,688**
Notes receivable	69,547	**38,046**
Accounts receivable, less allowances of $10,811 in 2010 and $12,083 in 2011	414,149	**477,727**
Inventories at lower of cost or market:		
Finished goods	240,107	**382,829**
Work in process	26,735	**50,842**
Raw materials and supplies	119,985	**208,800**
	386,827	**642,471**
Other current assets	56,357	**42,630**
Total current assets	1,340,239	**1,338,562**
Property, plant and equipment:		
Land and land improvements	34,355	**34,400**
Buildings	320,997	**324,398**
Machinery and equipment	1,636,700	**1,763,605**
Molds, cores and rings	232,153	**233,949**
	2,224,205	**2,356,352**
Less accumulated depreciation and amortization	1,371,763	**1,396,678**
Net property, plant and equipment	852,442	**959,674**
Goodwill		**20,687**
Intangibles, net of accumulated amortization of $24,455 in 2010 and $25,086 in 2011	17,256	**16,626**
Restricted cash	2,274	**2,401**
Other assets	93,326	**70,872**
Total assets	$ 2,305,537	**$ 2,408,822**
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	$ 146,947	**$ 136,170**
Accounts payable	384,464	**488,160**
Accrued liabilities	152,364	**185,023**
Income taxes	4,601	**4,905**

Current portion of long term debt	5,885	**21,458**
Total current liabilities	694,261	**835,716**
Long-term debt	320,724	**324,440**
Postretirement benefits other than pensions	257,657	**261,546**
Pension benefits	258,321	**234,436**
Other long-term liabilities	180,082	**174,648**
Deferred income taxes		**12,435**
Redeemable noncontrolling shareholder interest	71,442	**71,673**
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 in 2010 and in 2011	87,850	**87,850**
Capital in excess of par value	61,444	
Retained earnings	1,247,265	**1,251,190**
Cumulative other comprehensive loss	(468,063)	**(430,153)**
	928,496	**908,887**
Less: common shares in treasury at cost (26,205,336 in 2010 and 25,592,543 in 2011)	(467,707)	**(455,419)**
Total parent stockholders equity	460,789	**453,468**
Noncontrolling shareholders interests in consolidated subsidiaries	62,261	**40,460**
Total equity	523,050	**493,928**
Total liabilities and equity	$ 2,305,537	**$ 2,408,822**

See accompanying notes.

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COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2010 AND 2011
(UNAUDITED)
(Dollar amounts in thousands except per-share amounts)

	2010	**2011**
Net sales	$ 803,959	**$ 922,207**
Cost of products sold	708,577	**849,464**
Gross profit	95,382	**72,743**
Selling, general and administrative	54,274	**48,490**
Restructuring	7,426	
Operating profit	33,682	**24,253**
Interest expense	9,149	**9,229**
Interest income	(771)	**(901)**
Other income	(988)	**(143)**
Income from continuing operations before income taxes	26,292	**16,068**
Income tax expense	1,247	**1,621**
Income from continuing operations	25,045	**14,447**
Income from discontinued operations, net of income taxes	25,126	
Net income	50,171	**14,447**
Net income attributable to noncontrolling shareholders interests	6,094	**2,924**
Net income attributable to Cooper Tire & Rubber Company	$ 44,077	**$ 11,523**
Basic earnings per share:		
Income from continuing operations attributable to Cooper Tire & Rubber Company	$ 0.31	**$ 0.19**
Income from discontinued operations	0.41	
Net income attributable to Cooper Tire & Rubber Company common stockholders	$ 0.72	**$ 0.19**
Diluted earnings per share:		

Income from continuing operations attributable to Cooper Tire & Rubber Company	$	0.30	**$**	**0.18**
Income from discontinued operations		0.40		
Net income attributable to Cooper Tire & Rubber Company common stockholders	$	0.70	**$**	**0.18**
Dividends per share	$	0.105	**$**	**0.105**

See accompanying notes.

COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2010 AND 2011
(UNAUDITED)
(Dollar amounts in thousands except per-share amounts)

	2010	**2011**
Net sales	$ 1,558,402	**$ 1,828,169**
Cost of products sold	1,377,848	**1,670,298**
Gross profit	180,554	**157,871**
Selling, general and administrative	98,879	**101,435**
Restructuring	15,038	
Operating profit	66,637	**56,436**
Interest expense	17,879	**18,650**
Interest income	(1,984)	**(1,570)**
Other income	(1,225)	**(5,648)**
Income from continuing operations before income taxes	51,967	**45,004**
Income tax expense	8,990	**12,080**
Income from continuing operations	42,977	**32,924**
Income from discontinued operations, net of income taxes	24,366	
Net income	67,343	**32,924**
Net income attributable to noncontrolling shareholders interests	11,690	**5,727**
Net income attributable to Cooper Tire & Rubber Company	$ 55,653	**$ 27,197**
Basic earnings per share:		
Income from continuing operations attributable to Cooper Tire & Rubber Company	$ 0.51	**$ 0.44**
Income from discontinued operations	0.40	
Net income attributable to Cooper Tire & Rubber Company common stockholders	$ 0.91	**$ 0.44**

Diluted earnings per share:				
Income from continuing operations attributable to Cooper Tire & Rubber Company	$	0.50	**$**	**0.43**
Income from discontinued operations		0.39		
Net income attributable to Cooper Tire & Rubber Company common stockholders	$	0.89	**$**	**0.43**
Dividends per share	$	0.210	**$**	**0.210**

See accompanying notes.

COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2010 AND 2011
(UNAUDITED)
(Dollar amounts in thousands)

	2010	**2011**
Operating activities:		
Net income	$ 67,343	**$ 32,924**
Adjustments to reconcile net income to net cash provided by (used in) continuing operations:		
Income from discontinued operations, net of income taxes	(24,366)	
Depreciation	58,991	**62,228**
Amortization	997	**672**
Deferred income taxes	(551)	**1,543**
Stock based compensation	3,532	**2,339**
Change in LIFO inventory reserve	46,627	**70,706**
Amortization of unrecognized postretirement benefits	16,505	**17,682**
Loss on sale of assets	209	**2,735**
Changes in operating assets and liabilities of continuing operations:		
Accounts and notes receivable	(108,959)	**(41,959)**
Inventories	(137,258)	**(306,206)**
Other current assets	(3,662)	**19,237**
Accounts payable	87,683	**93,210**
Accrued liabilities	(1,919)	**31,630**
Other items	24,081	**(41,951)**
Net cash provided by (used in) continuing operations	29,253	**(55,210)**
Net cash provided by discontinued operations	*17,262*	
Net cash provided by (used in) operating activities	46,515	**(55,210)**
Investing activities:		
Property, plant and equipment	(45,048)	**(83,100)**
Acquisition of business, net of cash acquired		**(17,380)**
Proceeds from the sale of assets	292	**3,450**
Net cash used in investing activities	(44,756)	**(97,030)**
Financing activities:		
Payments on short-term debt	(4,776)	**(12,740)**
Issuance of long-term debt		**20,085**
Payments on long-term debt	(10,600)	**(600)**
Contributions by noncontrolling shareholder	5,250	
Acquisition of noncontrolling shareholder interest	(17,920)	**(116,500)**
Payment of dividends to noncontrolling shareholders	(11,637)	**(5,731)**
Payment of dividends	(12,856)	**(13,048)**
Issuance of common shares and excess tax benefits on options	3,640	**4,289**

Net cash used in financing activities	(48,899)	**(124,245)**
Effects of exchange rate changes on cash of continuing operations	(759)	**814**
Changes in cash and cash equivalents	(47,899)	**(275,671)**
Cash and cash equivalents at beginning of year	426,981	**413,359**
Cash and cash equivalents at end of period	$ 379,082	**$ 137,688**

See accompanying notes.

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

Organization, Consolidation and Summary of Principal Accounting Policies

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. There is a year-round demand for the Company s passenger and truck replacement tires, but sales of light vehicle replacement tires are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of June through November. Operating results for the three-month and six-month periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011.

   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.

   The Company s investment in Corporacion de Occidente (COOCSA), a Mexican tire manufacturing entity, represented an approximate 38 percent ownership interest at December 31, 2010. On January 14, 2011, the Company invested $21,775 and acquired an additional 20 percent ownership share. The Company s ownership share is now approximately 58 percent and because of the increase in voting rights, the results of the entity have been consolidated from the date of the transaction.

   The Company had entered into a joint venture, Cooper de Mexico, to market and distribute Cooper, Pneustone and associated brand tires in Mexico. The Company had determined it had the power to control the purchasing and marketing of tires for this joint venture. The Company had also provided additional financial support to this joint venture in order to allow it to finance its business activities. The joint venture partner had not provided such additional support. The Company had determined it was the primary beneficiary of this joint venture due to its ability to control the primary economic activity and due to the subordinated financial support it had provided to the entity which would require the Company to absorb more than 50 percent of expected losses. On January 14, 2011, as a result of a $12,000 capital call, the Company achieved virtually 100 percent ownership in this Mexican marketing entity. The additional ownership was accounted for by reclassification of the negative balance of noncontrolling shareholder interest of $4,576 to Capital in excess of par value. This entity was previously consolidated in the Company s financial results.

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The Company entered into a joint venture with Kenda Tire Company to construct and operate a tire manufacturing facility in the People s Republic of China (PRC) which began production in 2007. Until May 2012, all of the tires produced by this joint venture are required to be exported and sold by Cooper Tire & Rubber Company and its affiliates. Due to this requirement, the Company has the power to direct the manufacturing operations of the joint venture to produce the types of tires required by the Company to meet its global demands. The Company had determined it was the primary beneficiary of this joint venture because of the operational control and the fact it received all of the tires produced by this manufacturing operation. In March 2011, the Company increased its ownership in the affiliated Cooper Kenda Tire operations to 100 percent from 50 percent for cash consideration of $116,500. In accordance with Accounting Standards Codification (ASC) 810, Consolidation, the excess of the $116,500 over the non-controlling shareholder interest was recorded as a decrease to Capital in excess of par value, limited by the amount of Capital in excess of par value at the transaction date and to Retained earnings to reflect the additional ownership. The entity has been renamed Cooper Kunshan Tire. This entity was previously consolidated in the Company s financial results.

Since the Company had determined as of December 31, 2010 that both Cooper Kenda and Cooper de Mexico were Variable Interest Entities (VIEs) and it was the primary beneficiary, it had included their assets, liabilities and operating results in its consolidated financial statements. At December 31, 2010, the assets (principally Property, plant and equipment) of these VIEs, $204,535, could only be used to settle obligations of those VIEs. Similarly, liabilities (principally Notes payable) of consolidated VIEs, $80,414, at December 31, 2010 represented claims against the specific assets of the VIEs. Because of the increased ownership in these two entities, these restrictions are no longer applicable.

Accounting Pronouncements

In June 2011, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income , which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011. Although the Company does not expect the adoption of ASU 2011-05 to have a material effect on its consolidated financial statements, it will change its financial statement presentation.

Acquisition

2. On January 14, 2011, the Company invested $21,775 and acquired an additional 20 percent ownership in COOCSA, a Mexican tire manufacturing entity in which it had previously been an equity investor. The Company s ownership share is now approximately 58 percent and because of the increase in voting rights, the results of the entity and 100 percent of its assets and liabilities will be consolidated from the date of this transaction. The Company made this additional investment as part of its strategic plan to build a sustainable, competitive cost position.

The COOCSA acquisition is being accounted for as a purchase transaction. The total consideration (including the $21,775 paid and the fair value of the original 38 percent ownership interest) has preliminarily been allocated to the assets acquired, liabilities assumed and noncontrolling shareholder interest based on their respective fair values at January 14, 2011. This initial purchase price allocation may be adjusted within one year of the purchase date for changes in estimates of the fair value of assets acquired and liabilities assumed. Adjustments to this preliminary allocation will be made when the asset valuations have been completed. In the second quarter, changes in the valuation of property, plant and equipment and certain accrued liabilities were recorded, with a corresponding adjustment to goodwill. The Company expects the valuation process to be completed no later than December 31, 2011. The excess purchase price over the estimated fair value of the net assets acquired is allocated to goodwill. Goodwill consists of anticipated growth opportunities for COOCSA and is recorded in the North American Tire Operations segment. Goodwill is not deductible for federal income tax purposes. The operating results of

COOCSA have been included in the consolidated financial statements of the Company since the date of acquisition.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on January 14, 2011, translated into U.S. dollars at the exchange rate on that date.

Assets	
Cash	$ 4,395
Inventory	14,105
Other current assets	3,400
Property, plant & equipment	84,069
Goodwill	20,687
Liabilities	
Payable to Cooper Tire & Rubber Company	(4,185)
Accounts payable	(4,990)
Accrued liabilities	(2,661)
Deferred income taxes	(9,643)
Notes payable to Cooper Tire & Rubber Company	(11,269)
	93,908
Noncontrolling shareholder interest	(37,853)
Cooper Tire & Rubber Company consideration	$ 56,055

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 4. The Company utilized a third party to assist in the fair value determination of certain components of the purchase price allocation, namely Property, plant and equipment. The valuation of Property, plant and equipment was developed using primarily the cost approach. The fair value of the Company s investment was determined based upon internal and external inputs considering various relevant market transactions and discounted cash flow valuation methods, among other factors. The fair value of noncontrolling shareholder interest was valued using the same method used to value the investment.

At December 31, 2010, the Company s previously recorded investment in COOCSA was recorded as an Investment in unconsolidated subsidiary of $24,398 which was included in Other assets on its Consolidated Balance Sheets. The Company had also recorded a Cumulative currency loss of $4,893 associated with this investment which was included in Cumulative other comprehensive loss on the Consolidated Balance Sheets.

In connection with its increased investment in COOCSA, the Company recorded a gain of $4,989 on its original investment, which represents the excess of the fair value of approximately $34,280 over the January 14, 2011 carrying value and previously unrecognized currency losses. The gain was recorded in Other income in the financial statements.

The Cooper Tire & Rubber Company consideration from the table above of $56,055 represents the $21,775 additional investment made by the Company plus the fair value of the original investment of $34,280.

The acquisition does not meet the thresholds for a significant acquisition and therefore no pro forma financial information is presented.

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Earnings Per Share

3. Net income per share is computed on the basis of the weighted average number of common shares outstanding each year. Diluted earnings per share from continuing operations 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	
	2010	**2011**	2010	**2011**
Numerator				
Numerator for basic and diluted earnings per share income from continuing operations available to common stockholders	$ 18,951	**$ 11,523**	$ 31,287	**$ 27,197**
Denominator				
Denominator for basic earnings per share weighted average shares outstanding	61,292	**62,196**	61,104	**62,024**
Effect of dilutive securities stock options and other stock units	1,317	**1,012**	1,349	**1,172**
Denominator for diluted earnings per share adjusted weighted average shares outstanding	62,609	**63,208**	62,453	**63,196**
Basic earnings per share:				
Income from continuing operations	$ 0.31	**$ 0.19**	$ 0.51	**$ 0.44**
Income from discontinued operations, net of income taxes	0.41		0.40	
Net income attributable to Cooper Tire & Rubber Company common stockholders	$ 0.72	**$ 0.19**	$ 0.91	**$ 0.44**
Diluted earnings per share:				
Income from continuing operations	$ 0.30	**$ 0.18**	$ 0.50	**$ 0.43**
Income from discontinued operations, net of income taxes	0.40		0.39	