COOPER TIRE & RUBBER CO
Form 10-K
February 19, 2019

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K
For Annual and Transition Reports Pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934

ý **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2018

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number 001-04329

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)*

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $1 par value per share	New York Stock Exchange
(Title of Each Class)	*(Name of Each Exchange on which Registered)*

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	Accelerated filer	¨
Non-Accelerated Filer	¨	Smaller Reporting Company	¨
		Emerging growth company	¨

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant at June 29, 2018 was $1,259,031,486.

The number of shares outstanding of the registrant's common stock as of February 14, 2019 was 50,073,633.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information from the registrant's definitive proxy statement for its 2019 Annual Meeting of Stockholders will be herein incorporated by reference into Part III, Items 10 – 14, of this report.

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PART I

NOTE ABOUT FORWARD-LOOKING STATEMENTS

The annual report on Form 10-K contains what the Company believes are "forward-looking statements," as that term is defined under the Private Securities Litigation Reform Act of 1995, regarding projections, expectations or matters that the Company anticipates may happen with respect to the future performance of the industries in which the Company operates, the economies of the United States and other countries, or the performance of the Company itself, which involve uncertainty and risk. Such "forward-looking statements" are generally, though not always, preceded by words such as "anticipates," "expects," "will," "should," "believes," "projects," "intends," "plans," "estimates," and similar terms that view to the future and are not merely recitations of historical fact. Such statements are made solely on the basis of the Company's current views and perceptions of future events, and there can be no assurance that such statements will prove to be true.

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

- volatility in raw material and energy prices, including those of rubber, steel, petroleum-based products and natural gas or the unavailability of such raw materials or energy sources;

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- the failure of the Company's suppliers to timely deliver products or services in accordance with contract specifications;
- changes to tariffs or trade agreements, or the imposition of new tariffs or trade restrictions, imposed on tires or materials or manufacturing equipment which the Company uses, including changes related to tariffs on automotive imports, as well as on tires, raw materials and tire-manufacturing equipment imported into the U.S. from China;
- changes in economic and business conditions in the world, including changes related to the United Kingdom's decision to withdraw from the European Union;
- the inability to obtain and maintain price increases to offset higher production, tariffs or material costs;
- the impact of the recently enacted tax reform legislation;
- increased competitive activity including actions by larger competitors or lower-cost producers;
- the failure to achieve expected sales levels;
- changes in the Company's customer or supplier relationships or distribution channels, including the write-off of outstanding accounts receivable or loss of particular business for competitive, credit, liquidity, bankruptcy, restructuring or other reasons;
- the failure to develop technologies, processes or products needed to support consumer demand or changes in consumer behavior, including changes in sales channels;
- the costs and timing of restructuring actions and impairments or other charges resulting from such actions, including the possible outcome of the recently announced decision to cease light vehicle production in the U.K., or from adverse industry, market or other developments;
- consolidation or other cooperation by and among the Company's competitors or customers;
- inaccurate assumptions used in developing the Company's strategic plan or operating plans, including impairment of goodwill supported by such plans, or the inability or failure to successfully implement such plans or to realize the anticipated savings or benefits from strategic actions;
- risks relating to investments and acquisitions, including the failure to successfully integrate them into operations or their related financings may impact liquidity and capital resources;
- the ultimate outcome of litigation brought against the Company, including product liability claims, which could result in commitment of significant resources and time to defend and possible material damages against the Company or other unfavorable outcomes;
- a disruption in, or failure of, the Company's information technology systems, including those related to cybersecurity, could adversely affect the Company's business operations and financial performance;
- government regulatory and legislative initiatives including environmental, healthcare, privacy and tax matters;
- volatility in the capital and financial markets or changes to the credit markets and/or access to those markets;
- changes in interest or foreign exchange rates or the benchmarks used for establishing the rates;
- an adverse change in the Company's credit ratings, which could increase borrowing costs and/or hamper access to the credit markets;
- failure to implement information technologies or related systems, including failure by the Company to successfully implement ERP systems;
- the risks associated with doing business outside of the U.S.;
- technology advancements;
- the inability to recover the costs to refresh existing products or develop and test new products or processes;
- the impact of labor problems, including labor disruptions at the Company, its joint ventures, or at one or more of its large customers or suppliers;
- failure to attract or retain key personnel;
- changes in pension expense and/or funding resulting from the Company's pension strategy, investment performance of the Company's pension plan assets and changes in discount rate or expected return on plan assets assumptions, or changes to related accounting regulations;
- changes in the Company's relationship with its joint-venture partners or suppliers, including any changes with respect to its former PCT joint venture's production of TBR products;

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- the ability to find and develop alternative sources for products supplied by PCT;
- a variety of factors, including market conditions, may affect the actual amount expended on stock repurchases; the Company's ability to consummate stock repurchases; changes in the Company's results of operations or financial conditions or strategic priorities may lead to a modification, suspension or cancellation of stock repurchases, which may occur at any time;
- the inability to adequately protect the Company's intellectual property rights; and
- the inability to use deferred tax assets.

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

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

Item 1. BUSINESS

Cooper Tire & Rubber Company, with its subsidiaries ("Cooper" or the "Company"), is a leading manufacturer and marketer of replacement tires. It is the fifth largest tire manufacturer in North America and, according to a recognized trade source, the Cooper family of companies is the thirteenth largest tire company in the world based on sales. Cooper specializes in the design, manufacture, marketing and sales of passenger car, light truck, truck and bus radial ("TBR"), motorcycle and racing tires.

The Company is organized into four business segments: North America, Latin America, Europe and Asia. Each segment is managed separately. Additional information on the Company's segments as reported, including their financial results, total assets, products, markets and presence in particular geographic areas, appears in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the "Business Segments" note to the consolidated financial statements.

Cooper Tire & Rubber Company was incorporated in the state of Delaware in 1930 as the successor to a business originally founded in 1914. Based in Findlay, Ohio, Cooper and its family of companies currently operate in 14 countries, including 9 manufacturing facilities and 22 distribution centers. As of December 31, 2018, it employed 9,027 persons worldwide.

Business Segments

The Company has four segments under Accounting Standards Codification ("ASC") 280, "Segments":

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

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

Both the Europe and Asia 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 Europe and Asia segments are presented as "International Tire Operations" in the segment disclosure.

Americas Tire Operations Segment

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 markets and distributes racing, TBR and motorcycle tires. The racing and motorcycle tires

are manufactured by the Company’s European Operations segment and by others. TBR tires are sourced from China-based Qingdao Ge Rui Da Rubber Co., Ltd. ("GRT"), a majority-owned joint venture manufacturing facility, and through an off-take agreement that was entered with Prinx Chengshan (Shandong) Tire Company Ltd. ("PCT"), the Company's former joint venture. In December 2017, the Company signed an off-take agreement with Sailun (Vietnam) Co., Ltd. ("Sailun Vietnam"), effective from January 1, 2018 through December 31, 2020, as an additional source of TBR tires. On December 12, 2018, Cooper Tire & Rubber Company Vietnam Holding, LLC ("Cooper Vietnam"), a wholly owned subsidiary of Cooper, and Sailun Vietnam entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell TBR tires. The new joint venture is expected to begin producing tires in 2020.

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").

The segment operates in a highly competitive industry, which includes Bridgestone Corporation, Goodyear Tire & Rubber Company and Groupe Michelin. These competitors are substantially larger than the Company and serve OEMs as well as the replacement tire market. The segment also faces competition from low-cost producers in Asia, Mexico, South America and Central Europe. Some of those producers are foreign affiliates of the segment’s competitors in North America. The segment had a market share in 2018 of approximately 10.3 percent of all light vehicle replacement tire sales in the U.S. The segment also participates in the U.S. TBR tire market. A portion of the products manufactured by the segment are exported throughout the world.

Success in competing for the sale of replacement tires is dependent upon many factors, the most important of which are price, quality, performance, line coverage, availability through appropriate distribution channels and relationships with dealers and retailers. Other factors include warranty, credit terms and other value-added programs. The segment has built close working relationships through the years with independent dealers. It believes those relationships have enabled it to obtain a competitive advantage in that channel of the market. As a steadily increasing percentage of replacement tires are sold by large regional and national tire retailers, the segment has increased focus on its penetration of those distribution channels, while maintaining its traditionally strong network of independent dealers. The segment is also active in various other sales channels, including digital channels and others in which the Company has been less active in the past.

The segment’s replacement tire business has a broad customer base that includes purchasers of proprietary brand tires that are marketed and distributed by the Company and private label tires which are manufactured by the Company but marketed and distributed by the Company’s customers.

Customers generally place orders on a month-to-month basis and the segment adjusts production and inventory to meet those orders, which results in varying backlogs of orders at different times of the year. Tire sales are subject to a seasonal demand pattern. This usually results in the sales volumes being strongest in the third and fourth quarters and weaker in the first and second quarters.

International Tire Operations Segment

The International Tire Operations segment is the combination of the Europe and Asia operating segments. The European operations include manufacturing operations in the United Kingdom (“U.K.”) and the Republic of Serbia (“Serbia”). The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for domestic and global markets. The Serbian entity manufactures passenger car and light truck tires primarily for the European markets and for export to the North American segment. The Asian operations are located in the People’s Republic of China (“PRC”). Cooper Kunshan Tire manufactures passenger car and light truck tires both for the Chinese domestic market and for export to markets outside of the PRC. On December 1, 2016, the Company acquired 65 percent ownership of China-based GRT, a joint venture manufacturing facility located in the PRC. GRT serves as a global source of TBR tire production for the Company. The segment also had another joint venture in the PRC, PCT, which manufactured and marketed truck and bus radial and bias tires, as well as passenger car and light truck tires for domestic and global markets. The Company sold its ownership interest in this joint venture in November 2014, and the Company began procuring certain TBR and passenger car tires under off-take agreements with PCT through mid-2018, which were subsequently extended and now expire in mid-2020. In December 2017, the

Company signed an off-take agreement with Sailun Vietnam, as an additional source of TBR tires. On December 12, 2018, Cooper Tire & Rubber Company Vietnam Holding, LLC ("Cooper Vietnam"), a wholly owned subsidiary of Cooper, and Sailun Vietnam entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell TBR tires in addition to the off-take agreement. The new joint venture is expected to begin producing tires in 2020. The segment sells a majority of its tires in the replacement market, with a growing portion also sold to OEMs.

On January 17, 2019, Cooper Tire & Rubber Company Europe Ltd. (“Cooper Tire Europe”), a wholly owned subsidiary of the Company, committed to a plan to cease light vehicle tire production at its Melksham, England facility. Light vehicle tire

production is expected to be phased out over a period of approximately 10 months. An estimated 300 roles will be eliminated at the site. Cooper Tire Europe will obtain light vehicle tires to meet customer needs from other production sites within the Company's global production network. Approximately 400 roles will remain in Melksham to support the functions that continue there, including motorsports and motorcycle tire production, the materials business, Cooper Tire Europe headquarters, sales and marketing, and the Europe Technical Center.

As in the Americas Tire Operations segment, the International Tire Operations segment operates in a highly competitive industry, which includes Bridgestone Corporation, Goodyear Tire & Rubber Company and Groupe Michelin. These competitors are substantially larger than the Company and serve OEMs as well as the replacement tire market. The segment also faces competition from low-cost producers.

Raw Materials

The Company's principal raw materials include natural rubber, synthetic rubber, carbon black, chemicals and steel reinforcement components. The Company acquires its raw materials from various sources around the world to assure continuing supplies for its manufacturing operations and to mitigate the risk of potential supply disruptions.

During 2018, the Company experienced increases in the costs of certain of its principal raw materials in comparison to 2017. The pricing volatility of natural rubber and certain other raw materials contributes to the difficulty in accurately predicting and managing these costs.

The Company has a purchasing office in Singapore to acquire natural rubber directly from producers in Southeast Asia. This purchasing operation enables the Company to work directly with producers to continually improve consistency and quality, while reducing the costs of materials, transportation and transactions.

The Company's contractual relationships with its raw material suppliers are generally based on long-term agreements or purchase order arrangements. For natural rubber, natural gas and certain principal materials, procurement is managed through a combination of buying forward production requirements and utilizing the spot market. For other principal materials, procurement arrangements include supply agreements that may contain formula-based pricing based on commodity indices, multi-year agreements or spot purchases. These arrangements only cover quantities needed to satisfy normal manufacturing demands.

Working Capital

The Company's working capital consists mainly of inventory, accounts receivable and accounts payable. These working capital accounts are closely managed by the Company. Inventory balances are primarily valued at a last-in, first-out ("LIFO") basis in the U.S. and under the first-in, first-out ("FIFO") basis in the rest of the world. Inventories turn regularly, but balances typically increase during the first half of the year before declining as a result of increased sales in the second half. The Company's inventory levels are generally kept within a targeted range to meet projected demand. The mix of inventory is critical to inventory turnover and meeting customer demand. Accounts receivable and accounts payable are also affected by this business cycle, typically requiring the Company to have greater working capital needs during the second and third quarters. The Company engages in a rigorous credit analysis of its customers and monitors their financial positions. The Company offers incentives to certain customers to encourage the payment of account balances prior to their scheduled due dates.

At December 31, 2018, the Company held cash and cash equivalents of $356 million.

Research, Development and Product Improvement

The Company directs its research activities toward product development, performance and operating efficiency. The Company conducts extensive testing of current tire lines, as well as new concepts in tire design, construction and materials. During 2018, over 137 million miles of tests were performed on indoor test wheels and in monitored road tests. The Company has a tire and vehicle test track in Texas that assists with the Company's testing activities. Uniformity equipment is used to physically monitor manufactured tires for high standards of ride quality. The Company continues to design and develop specialized equipment to fit the precise needs of its manufacturing and quality control requirements.

Patents, Intellectual Property and Trademarks

The Company owns or has licenses to use patents and intellectual property covering various aspects in the design and manufacture of its products and processes and equipment for the manufacture of its products. While the Company believes these assets as a group are of material importance, it does not consider any one asset or group of these assets to be of such importance that the loss or expiration thereof would materially affect its business.

The Company owns and uses tradenames and trademarks worldwide. While the Company believes such tradenames and trademarks as a group are of material importance, the trademarks the Company considers most significant to its business are

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those using the words "Cooper," "Mastercraft," "Roadmaster," "Starfire" and “Avon.” The Company believes all of these significant trademarks are valid and will have unlimited duration as long as they are adequately protected and appropriately used. Certain other tradenames and trademarks are being amortized over the next one to two years.

Seasonal Trends

There is year-round demand for passenger car and truck replacement tires, but passenger car replacement tire sales are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of May through November.

Environmental Matters

The Company recognizes the importance of compliance in environmental matters and has programs in place to comply with local, state, federal and foreign requirements and regulations. The Company has an organizational structure which allows it to supervise environmental activities, planning and programs to ensure compliance. The Company also participates in activities concerning general industry environmental matters, and the Company is committed to achieving a baseline of key environmental sustainability metrics and targets. A number of the Company’s operations are certified to the ISO 14001 standard and the Company has been recognized with several awards for efforts to improve energy efficiency.

The Company’s manufacturing facilities, like those of the industry generally, are subject to numerous laws and regulations designed to protect the environment. In general, the Company has not experienced difficulty in complying with these requirements and believes they have not had a material adverse effect on its financial condition or the results of its operations. The Company expects additional requirements with respect to environmental matters will be imposed in the future. The Company’s 2018 expense and capital expenditures for environmental matters at its facilities were not material, nor is it expected that expenditures in 2019 for such matters will be material.

Global Social Impact

The Company is committed to environmental responsibility and the health and safety of its employees, contractors and the community, as well as the long-term, sustainable health and growth of the Company. The Company's organization structure allows it to supervise and audit, using a combination of internal and external resources, environmental activities, planning and programs to ensure compliance with applicable environmental, health and safety ("EHS") requirements and Company standards. Additionally, the Company has implemented a global EHS management system to predictably and sustainably manage EHS and to hold management accountable for non-compliance. The Company also participates in activities concerning general industry environmental matters, including the Tire Industry Project and the Global Platform for Sustainable Natural Rubber. For an overview of the Company's EHS and sustainability strategy and commitments, please visit http://www.coopertire.com/Corporate-Responsibility/Sustainability.aspx. The information contained on or accessible through the Company's website is not incorporated by reference in this annual report on Form 10-K and should not be considered a part of this report.

Foreign Operations

The Company has a manufacturing facility, a technical center, a distribution center and its European headquarters office located in the U.K. The Company has a manufacturing facility, two distribution centers and an office in Serbia. In total, there are seven distribution centers and three sales offices in Europe. The number of foreign operations in Europe will not be impacted by the January 17, 2019 decision to cease light vehicle tire production at its Melksham, England manufacturing facility. The Company has a manufacturing facility and a joint venture manufacturing facility, two distribution centers, a technical center, a sales office and an administrative office in the PRC. The Company also has a purchasing office in Singapore. A joint venture manufacturing facility, in Vietnam, is expected to become operational in 2020 as a result of the joint venture contract signed by Cooper Vietnam and Sailun Vietnam in December 2018. In Latin America, the Company has a joint venture manufacturing facility, an administrative office, three sales offices and a distribution center.

Additional information on the Company’s foreign operations can be found in the “Business Segments” note to the consolidated financial statements.

Available Information

The Company makes available free of charge, on or through its website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after it electronically

files such material with, or furnishes it to, the U.S. Securities and Exchange Commission ("SEC") (https://www.sec.gov). The Company's internet address is http://www.coopertire.com. The Company has adopted charters for each of its Audit, Compensation and Nominating and Governance Committees, corporate governance guidelines and a code of conduct, which are available on the Company's

website and will be available to any stockholder who requests them from the Company's Investor Relations department. The information contained on or accessible through the Company's website is not incorporated by reference in this annual report on Form 10-K and should not be considered a part of this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and all positions and offices held by all executive officers of the Company as of December 31, 2018 are as follows:

Name	Age	Executive Office Held	Business Experience
John J. Bollman	61	Senior Vice President and Chief Human Resources Officer	Senior Vice President and Chief Human Resources Officer since March 2017. Previously Chief Human Resources Officer of Sequa Corporation, a global firm that provides manufacturing support to gas turbine engine makers, from 2008 to March 2017; Vice President of Human Resources, North America of Whirlpool Corporation, a global home appliance manufacturing company, from 2000 to 2008.
Christopher J. Eperjesy	50	Senior Vice President and Chief Financial Officer	Senior Vice President, Chief Financial Officer since December 2018. Previously Chief Financial Officer of the IMAGINE Group, a provider of marketing products, from August 2017 to December 2018; Chief Financial Officer of Arctic Cat, an all-terrain vehicle manufacturer, from 2015 to 2017; and Vice President - Finance, Chief Financial Officer, Treasurer and Secretary of Twin Disc, an off-highway power transmission equipment manufacturer, from 2002 to 2015.
Bradley E. Hughes	57	President, Chief Executive Officer and Director	President, Chief Executive Officer and Director since September 2016. Senior Vice President and Chief Operating Officer from January 2015 to September 2016. Senior Vice President and President-International Tire Operations from July 2014 to January 2015. Senior Vice President and Chief Financial Officer from September 2014 to December 2014. Senior Vice President, Chief Financial Officer and Treasurer from July 2014 to September 2014. Vice President, Chief Financial Officer and Treasurer from November 2013 to July 2014. Vice President and Chief Financial Officer from November 2009 to November 2013.
Stephen Zamansky	48	Senior Vice President, General Counsel and Secretary	Senior Vice President, General Counsel and Secretary since July 2014. Vice President, General Counsel and Secretary from April 2011 to July 2014. Previously Senior Vice President, General Counsel & Secretary of Trinity Coal Corporation, a privately held mining company, from 2008 to March 2011. Trinity was acquired by the Essar Group in 2010 and commenced bankruptcy proceedings in March 2013.

Item 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

Antidumping and countervailing duty investigations into certain truck and bus tires imported from the PRC into the U.S. were initiated on January 29, 2016. The preliminary determinations announced in both investigations were affirmative and resulted in the imposition of significant additional duties from each. On February 22, 2017, the International Trade Commission ("ITC") made a final determination that the U.S. market had not suffered material injury because of imports of truck and bus tires from China. As a result of this decision, preliminary antidumping and countervailing duties from Chinese truck and bus tires imported subsequent to the preliminary determination were not collected and any amounts previously paid were refunded. On April 14, 2017, the United Steelworkers Union filed a civil action challenging the ITC's decision not to impose duties on truck and bus tires from China imported into the U.S. and that case is still pending. On November 1, 2018, the Court of International Trade ("CIT") remanded the case back to the ITC for reconsideration. On January 30, 2019, the ITC reversed its earlier decision and made an

affirmative determination of material injury, which started the process for the imposition of duties on Chinese truck and bus tire imports. Duties will be collected after the determination is published in the Federal Register. The ITC's re-determination, along with comments from the parties regarding the re-determination, are due to the CIT by April 15, 2019. The CIT will then make a final determination.

Pursuant to Section 301: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation, passenger, light truck and truck and bus tires, raw materials and tire-manufacturing equipment from the PRC imported into the U.S. became subject to additional 10 percent duties effective September 24, 2018. These duties are scheduled to increase to 25 percent effective March 2, 2019, unless the current negotiations between the U.S. and China result in a trade agreement, which could impact the future duty percentage. Retaliatory duties on U.S. products have been implemented in response to these additional duties by China. In addition, depending on the outcome of the Section 232 National Security Investigation of Automobiles, Including Cars, SUVs, Vans and Light Trucks, and Automotive Parts, passenger car and light truck tires imported into the U.S. may be subject to an additional duty.

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

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

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

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

In 2014, the Company sold its ownership interest in PCT and entered into off-take agreements with PCT to provide the continuous supply of certain TBR and passenger car tires for the Company through mid-2018. The agreements have been extended and now expire in mid-2020. If there are any disruptions in or quality issues with the supply of TBR products from PCT, it could have a material negative impact on the Company’s business. The Company is actively pursuing options to ensure the uninterrupted supply of these tires to meet the demands of the business beyond the terms of the PCT off-take agreements, including sourcing through GRT, an off-take agreement with Sailun Vietnam and the recently announced joint venture between Cooper Vietnam and Sailun Vietnam, which is expected to begin producing tires in 2020, but there can be no assurance that the Company will be able to do so in a timely manner.

If the Company fails to develop technologies, processes or products needed to keep up with rapidly evolving distribution channels and to support consumer demand or, changes in consumer behavior, it may lose significant market share or be unable to recover associated costs.

The Company’s tire sales, margins and profitability may be significantly impacted if it does not develop or have available technologies, processes, including distribution methods, or products that competitors may be developing and consumers or dealers are demanding. This includes, but is not limited to, changes in the design of and materials used to manufacture tires, changes in the types of tires consumers desire and changes in the vehicles consumers are purchasing. Additionally, the Company is also impacted by changes in the way consumers buy tires and failure to effectively compete in various sales and marketing channels, including digital channels and others in which the Company has been less active in the past, such as through mass merchandisers, which have negotiating leverage and costs associated with their operating procedures that are unique to their needs.

Technologies or processes may also be developed by competitors that better distribute tires to consumers, including through wholly-owned distributors, which could affect the Company’s customers and implementation of its strategic plan.

An increase in consumer preference for car- and ride-sharing services, as opposed to automobile ownership, may result in a long term reduction in the number of vehicles per capita. Additionally, refreshing existing products and developing new products and technologies requires significant investment and capital expenditures, is technologically challenging and requires extensive testing and accurate anticipation of technological and market trends. If the Company fails to develop new products that are appealing to its customers, or fails to develop products on time and within budgeted amounts, the Company may be

unable to recover its product development and testing costs. If the Company cannot successfully use new production or equipment methodologies it invests in, it may also not be able to recover those costs.

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

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

The Company continually reviews and updates its business plans to achieve these imperatives. If the assumptions used in developing the Company's business plans vary significantly from actual conditions, the Company's sales, margins and profitability could be harmed. If the Company is unsuccessful in implementing the tactics necessary to execute its business plans, it may not be able to achieve or sustain future profitability, which could impair its ability to meet debt and other obligations and could otherwise negatively affect its operating results, financial condition and liquidity.

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

The Company routinely evaluates potential investments and acquisitions and may pursue additional investment and acquisition opportunities, some of which could be material to its business. The Company cannot provide assurance whether it will be successful in pursuing and integrating any investment or acquisition opportunities or what the consequences of any investment or acquisition would be. The Company may encounter various risks in any investment or acquisition, including:

- the possible inability to integrate an acquired business into its operations;
- diversion of management's attention;
- loss of key management personnel;
- unanticipated problems or liabilities;
- potential asset impairment charges, including goodwill, due to inability to meet operating plans; and
- increased labor and regulatory compliance costs of acquired businesses.

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

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

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

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

The Company has and may in the future initiate restructuring actions designed to improve future profitability and competitiveness, and enhance the Company's flexibility, including the outcome of the recently announced restructuring in the U.K., as well as potential future outcomes from the Company's ongoing region by region global footprint assessment. The Company may not realize anticipated savings or benefits from the U.K. action, or future actions, in full or in part or within the time periods it expects. The Company is also subject to the risks of labor unrest, negative publicity and business disruption in connection with these actions. Failure to realize anticipated savings or benefits from the Company's actions could have an adverse effect on the business and could result in potential unexpected costs or other impacts. Such restructuring actions and impairments or other charges could have a significant negative effect

on the Company's earnings or cash flows in the short-term.

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

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

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

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

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

The Company periodically requires access to the capital and financial markets as a significant source of liquidity for maturing debt payments, including the Company's unsecured notes due in December 2019, or working capital needs or investments in the business that it cannot satisfy by cash on hand or operating cash flows. Substantial volatility in world capital markets and the banking industry may make it difficult for the Company to access credit markets and to obtain financing or refinancing, as the case may be, on satisfactory terms or at all. In addition, various additional factors, including a deterioration of the Company’s credit ratings or its business or financial condition, could further impair its access to the capital markets and bank financings. Additionally, any inability to access the capital markets or bank financings, including the ability to refinance existing debt when due, could require the Company to defer critical capital expenditures, reduce or not pay dividends, reduce spending in areas of strategic importance, suspend stock repurchases, sell important assets or, in extreme cases, seek protection from creditors. See also related comments under “There are risks associated with the Company’s global strategy, which includes using joint ventures and partially-owned subsidiaries.”

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

Increases in interest rates or changes in credit ratings may negatively impact the Company.

Certain of the Company's variable rate debt, including its revolving credit facility, currently uses LIBOR as a benchmark for establishing the interest rate. LIBOR is the subject of recent proposals for reform. These reforms and other pressures may cause LIBOR to disappear entirely or to perform differently than in the past. The consequences of these developments with respect to LIBOR cannot be entirely predicted but could result in an increase in the cost of variable rate debt. The interest rates under on the Company's term loans and revolving credit facilities can vary based on the Company's credit ratings. The Company's policy is to manage interest rate risk by entering into both fixed and variable rate debt arrangements. Interest rate swaps are also used to minimize worldwide financing cost and to achieve a desired mix of fixed and variable rate debt. The Company utilizes derivative financial instruments to enhance its ability to manage risk, including interest rate exposures that exist as part of ongoing business operations. The company does not enter into contracts for trading purposes, nor is it a party to any leveraged derivative instruments. The use of derivative financial instruments is monitored through regular communication with senior management and the utilization of written guidelines. However, the Company's use of these instruments may not effectively limit or eliminate exposure to changes in interest rates. Therefore, the Company cannot provide assurance that future credit rating or interest rate changes will not have a material negative impact on its business, financial position or operating results.

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

The Company relies on the accuracy, capacity and security of its information technology systems across all of its major business functions, including its research and development, manufacturing, sales, financial and administrative functions. While the Company maintains some of its critical information technology systems, it is also dependent on third parties to provide important information technology services relating to, among other things, human resources, electronic communications and certain finance functions. Additionally, the Company collects and stores sensitive data, including intellectual property,

proprietary business information and the proprietary business information of its customers and suppliers, as well as personally identifiable information of the Company's customers and employees, in data centers and on information technology networks. In addition, the European Union's General Data Protection Regulation ("GDPR"), which came into effect in May 2018, creates a range of new compliance obligations for companies that process personal data of European Union residents, and increases financial penalties for non-compliance. As a company that processes personal data of European Union residents, we bear the costs of compliance with the GDPR and are subject to the potential for fines and penalties in the event of a breach of the GDPR. Aside from the European Union, other jurisdictions have enacted, or are considering, regulations regarding data privacy. Despite the security measures that the Company has implemented, including those related to cybersecurity, its systems could be breached or damaged by computer viruses, natural or man-made incidents or disasters or unauthorized physical or electronic access. Furthermore, the Company may have little or no oversight with respect to security measures employed by third-party service providers, which may ultimately prove to be ineffective at countering threats. A system failure, accident or security breach could result in business disruption, theft of its intellectual property, trade secrets or customer information and unauthorized access to personnel information. To the extent that any system failure, accident or security breach results in disruptions to its operations or the theft, loss or disclosure of, or damage to, its data or confidential information, the Company's reputation, business, results of operations, cash flows and financial condition could be materially adversely affected. In addition, the Company may be required to incur significant costs to protect against and, if required, remediate the damage caused by such disruptions or system failures in the future.

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

The Company's operations expose it to legal actions, including potential liability for personal injury or death as an alleged result of the failure of or conditions in the products that it designs, manufactures and sells. Specifically, the Company is a party to a number of product liability cases in which individuals involved in motor vehicle accidents seek damages resulting from allegedly defective tires that it manufactured. Product liability claims and lawsuits, including possible class action, may result in material losses in the future and cause the Company to incur significant litigation defense costs. The Company is largely self-insured against these claims. These claims and related reserves could have a significant effect on the Company's financial position, cash flows and results of operations.

From time to time, the Company is also subject to audits, litigation or other commercial disputes and other legal proceedings relating to its business. Due to the inherent uncertainties of any litigation, commercial disputes or other legal proceedings, the Company cannot accurately predict their ultimate outcome, including the outcome of any related appeals. An unfavorable outcome could materially adversely impact the Company's financial condition, cash flows and results of operations.

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

The Company has affiliate, subsidiary and joint venture operations worldwide, including in the U.S., Europe, Mexico and the PRC. The Company has a wholly-owned manufacturing entity, Cooper Kunshan Tire, and is the majority owner of GRT, both in the PRC. The Company also is the majority owner of COOCSA, a manufacturing entity in Mexico, and has established operations in Serbia and the U.K. PCT, located in the PRC, is currently a supplier of TBR tires for the Company and the Company entered into an off-take agreement with Sailun Vietnam, located in Vietnam, for the supply of TBR tires. Additionally, the Company recently announced a joint venture between Cooper Vietnam and Sailun Vietnam, which is expected to begin producing tires in 2020. There are a number of risks in doing business abroad, including political and economic uncertainty, social unrest, sudden changes in laws and regulations, ability to enforce existing or future contracts, shortages of trained labor and the uncertainties associated with entering into joint ventures or similar arrangements in foreign countries. These risks may impact the Company's ability to expand its operations in different regions and otherwise achieve its objectives relating to its foreign operations, including utilizing these locations as suppliers to other markets. In addition, compliance with multiple and potentially conflicting foreign laws and regulations, import and export limitations and exchange controls is burdensome and expensive. For example, the Company could be adversely affected by violations of the Foreign Corrupt Practices Act ("FCPA") and similar worldwide anti-bribery laws as well as export controls and economic sanction laws. The FCPA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making

improper payments to government officials and, in some cases, other persons, for the purpose of obtaining or retaining business or obtaining another improper benefit. Violations of these laws and regulations could result in civil and criminal fines, penalties and sanctions against the Company, its officers or its employees, prohibitions on the conduct of the Company's business and on its ability to offer products and services in one or more countries, and could also harm the Company's reputation, business and results of operations. The Company's foreign operations also subject it to the risks of international terrorism and hostilities and to foreign currency risks, including exchange rate fluctuations and limits on the repatriation of funds. See also related comments under "The Company's results could be impacted by changes in tariffs, trade agreements or other trade restrictions imposed by the U.S. or other governments on imported tires or raw materials", "There are risks associated with the Company's

global strategy, which includes using joint ventures and partially-owned subsidiaries" and "The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets or the Company's business."

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

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

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

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The U.K. is currently negotiating the terms of its exit from the European Union ("Brexit") is currently scheduled for March 29, 2019. In November 2018, the U.K. and the European Union agreed upon a draft Withdrawal Agreement that sets out the terms of the U.K.'s departure, including commitments on citizen rights after Brexit, a financial settlement from the U.K., and a transition period from March 29, 2019 through December 31, 2020 to allow time for a future trade deal to be agreed. On January 15, 2019, the draft Withdrawal Agreement was rejected by the U.K. Parliament creating significant uncertainty about the terms and timing under which the U.K. will leave the European Union.

If the U.K. leaves the European Union with no agreement, it will likely have an adverse impact on labor and trade in addition to creating further short-term uncertainty and currency volatility. In the absence of a future trade deal, the U.K.'s trade with the European Union and the rest of the world would be subject to tariffs and duties set by the World Trade Organization. Additionally, the movement of goods between the U.K. and the remaining member states of the European Union will be subject to additional inspections and documentation checks, leading to possible delays at ports of entry and departure. These changes to the trading relationship between the U.K and European Union would likely result in increased cost of goods imported into and exported from the U.K. and may decrease the profitability of the Company's U.K. and other operations. Additional currency volatility could drive a weaker British pound, which increases the cost of goods imported into the U.K. operations and may decrease the profitability of the U.K. operations. A weaker British pound versus the U.S. dollar also causes local currency results of U.K. operations to be translated into fewer U.S. dollars during a reporting period. With a range of outcomes still possible, the impact from Brexit remains uncertain and will depend, in part, on the final outcome of tariff, trade, regulatory and other negotiations.

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

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

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

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

recall could harm the Company’s reputation, operating results and financial position.

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

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

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

Successfully competing in the highly competitive tire industry can be impacted by the successful development of information technology. If the Company fails to successfully develop or implement information technology systems, it may be at a disadvantage to its competitors resulting in lost sales and negative impacts on the Company's earnings. The Company has implemented Enterprise Resource Planning systems in the United States and other locations. The Company is evaluating its available options for integrating information technology solutions outside of the United States, which will require significant amounts of capital and human resources to deploy. These requirements may be significant and exceed Company projections. Throughout integration of the systems, there are also risks created to the Company's ability to successfully and efficiently operate.

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

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

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

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

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

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

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

The Company has significant net deferred tax assets recorded on the balance sheet and determines at each reporting period whether or not a valuation allowance is necessary based upon the expected realizability of such deferred tax assets. In the U.S., the Company has recorded deferred tax assets, the largest of which relate to product liability, pension and other postretirement benefit obligations, partially offset by deferred tax liabilities, the most significant of which relates to accelerated depreciation. The Company's non-U.S. deferred tax assets relate to pension, accrued expenses and net operating losses, and are partially offset by deferred tax liabilities related to accelerated depreciation. Based upon the Company's assessment of the realizability of its net deferred tax assets, the Company maintains a valuation allowance in the U.K., as well as a small valuation allowance for the portion of its U.S. deferred tax assets primarily associated with a loss carryforward. In addition, the Company has recorded valuation allowances for deferred tax assets primarily associated with other non-U.S. net operating losses.

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

position.

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

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

Recently enacted tax reform legislation has made substantial changes to U.S. tax law, including a reduction in the corporate tax rate, a limitation on deductibility of interest expense, a limitation on the use of net operating losses to offset future taxable income, the allowance of immediate expensing of capital expenditures and deemed repatriation of foreign earnings. The Company expects this legislation to have significant effects, some of which may be adverse. For example, the reduction in the corporate tax rate has resulted in a reduction in the value of the Company's existing deferred tax assets, and consequently was a charge to earnings in 2017.

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

Environmental issues, including climate change, or legal, regulatory or market measures to address environmental issues, may negatively affect the Company's business and operations and cause it to incur significant costs.

The Company’s manufacturing facilities are subject to numerous federal, state, local and foreign laws and regulations designed to protect the environment, including increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change, and the Company expects that additional requirements with respect to environmental matters will be imposed on it in the future.

There is also growing concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns, and the frequency and severity of extreme weather and natural disasters. In the event that issues related to such climate change have a negative effect on the Company's business, it may be subjected to decreased availability or less favorable pricing for certain raw materials, including natural rubber. Natural disasters and extreme weather conditions may also disrupt the productivity of the Company's facilities or the operation of its supply chain.

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

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

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

local currencies will translate into fewer dollars. In addition, a strong U.S. dollar may increase the competitiveness of competitors based outside of the United States. As a result, continued strengthening of the U.S. dollar may have a material adverse effect on the Company's financial condition, results of operations and cash flows. A weak U.S. dollar could increase the cost of goods imported into the Company's U.S. operations and other goods imported in U.S. dollars at other locations and may decrease the profitability of the Company's operations. As a result, continued weakening of the U.S. dollar may have a material adverse effect on the Company's financial condition, results of operations and cash flows.

The Company may not be able to protect its intellectual property rights adequately.
The Company's success depends in part upon its ability to use and protect its proprietary technology and other intellectual property, which generally covers various aspects in the design and manufacture of its products and processes. The Company owns and uses tradenames and trademarks worldwide. The Company relies upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements and patent, copyright and trademark laws to protect its intellectual property rights. The steps the Company takes in this regard may not be adequate to protect its intellectual property or to prevent or deter challenges or infringement or other violations of its intellectual property, and the Company may not be able to detect unauthorized use or take appropriate and timely steps to enforce its intellectual property rights.
In addition, the laws of some countries may not protect and enforce the Company's intellectual property rights to the same extent as the laws of the U.S. Further, while the Company believes it has rights to use all intellectual property in the Company's use, if the Company is found to infringe on the rights of others it could be adversely impacted.
The impact of proposed new accounting standards may have a negative impact on the Company's financial statements.
The Financial Accounting Standards Board is considering or has issued for future adoption several projects which may result in the modification of accounting standards affecting the Company. Any such changes could have a negative impact on the Company's financial statements.
The Company is facing risks relating to healthcare legislation.
The Company is facing risks emanating from legislation in the U.S., including the Patient Protection and Affordable Care Act and the related Healthcare and Education Reconciliation Act, which are collectively referred to as healthcare legislation. The future of this major legislation and any replacement is now in question and the ultimate cost and the potentially adverse impact to the Company and its employees cannot be quantified at this time.

Item 1B. UNRESOLVED STAFF COMMENTS
None.
Item 2. PROPERTIES
As shown in the following table, at December 31, 2018, the Company maintained 55 manufacturing facilities, distribution centers, retail stores, technical centers and office facilities worldwide. A majority of the manufacturing facilities are wholly-owned by the Company. Some manufacturing, distribution and office facilities are leased.

	Americas Tire Operations		International Tire Operations		
Type of Facility	North America	Latin America	Europe	Asia	Total
Manufacturing	4	1 *	2	2 *	9
Distribution centers	12	1	7	2	22
Retail stores	3	—	—	—	3
Technical centers and offices	7	4	6	4	21
Total	26	6	15	8	55

*This includes a manufacturing facility that is a joint venture.
The Company believes its properties have been adequately maintained, generally are in good condition and are suitable and adequate to meet the demands of each segment's business.

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market information

Cooper Tire & Rubber Company common stock is traded on the New York Stock Exchange under the symbol CTB.

Five-Year Stockholder Return Comparison

The SEC requires that the Company include in its annual report to stockholders a line graph presentation comparing cumulative five-year stockholder returns on an indexed basis with the Standard & Poor's ("S&P") Stock Index and either a published industry or line-of-business index or an index of peer companies selected by the Company. In 1993, the Company chose what is now the S&P 500 Auto Parts & Equipment Index as the most appropriate of the nationally recognized industry standards and has used that index for its stockholder return comparisons in all of its annual reports since that time.

The following chart assumes three hypothetical $100 investments on December 31, 2013, and shows the cumulative values at the end of each succeeding year resulting from appreciation or depreciation in the stock market price, assuming dividend reinvestment.

Total Return To Shareholders
(Includes reinvestment of dividends)

	ANNUAL RETURN PERCENTAGE Year Ended December 31,				
Company / Index	**2014**	**2015**	**2016**	**2017**	**2018**
Cooper Tire & Rubber Company	46.32	10.42	3.86	(7.95)	(7.24)
S&P 500 Index	13.69	1.38	11.96	21.83	(4.38)
S&P 500 Auto Parts & Equipment	3.68	(5.65)	(2.21)	47.52	(27.93)

	Base Period	INDEXED RETURNS Year Ended December 31,				
Company / Index	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Cooper Tire & Rubber Company	$100.00	$146.32	$156.74	$160.60	$152.65	$145.41
S&P 500 Index	100.00	113.69	115.07	127.03	148.86	144.48
S&P 500 Auto Parts & Equipment	100.00	103.68	98.03	95.82	143.34	115.41

(b) Holders

The number of holders of record at December 31, 2018 was 1,650.

(c) Dividends

The Company has paid consecutive quarterly dividends on its common stock since 1973.

(d) Issuer purchases of equity securities

During the quarter ended December 31, 2018, the Company did not purchase any equity securities registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934.

On February 16, 2017, the Board of Directors increased the amount under and expanded the duration of the Company's existing share repurchase program (as amended, the "2017 Repurchase Program"). The 2017 Repurchase Program allows the Company to repurchase up to $300,000,000, excluding commissions, of the Company’s common stock through December 31, 2019. The approximately $95,634,000 remaining authorization under the Company's existing share repurchase program as of February 16, 2017 is included in the $300,000,000 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. Shares can be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. All repurchases under the programs listed above have been made using cash resources.

Item 6. SELECTED FINANCIAL DATA

(Dollar amounts in thousands except per share amounts)

	2018 (a)	2017 (b)	2016	2015	2014 (h)
Net sales	$2,808,062	$2,854,656	$2,924,869	$2,972,901	$3,424,809
Operating profit (c)	$165,245	$309,247	$437,458	$399,305	$337,612
Income before income taxes	$114,058	$243,925	$367,093	$334,028	$348,519
Net income attributable to Cooper Tire & Rubber Company	$76,586	$95,400	$248,381	$212,766	$213,578
Earnings per share:					
Basic	$1.52	$1.83	$4.56	$3.73	$3.48
Diluted	$1.51	$1.81	$4.51	$3.69	$3.42
Dividends per share	$0.42	$0.42	$0.42	$0.42	$0.42
Weighted average shares outstanding (000s):					
Basic	50,350	52,206	54,480	57,012	61,402
Diluted	50,597	52,673	55,090	57,623	62,401
Property, plant and equipment, net	$1,001,921	$966,747	$864,227	$795,198	$740,203
Total assets (d), (e), (f)	$2,634,205	$2,707,925	$2,731,677	2,550,203	$2,600,962
Long-term debt (f)	$121,284	$295,987	$297,094	$296,412	$297,937
Total equity	$1,232,443	$1,185,756	$1,130,236	$1,017,611	$884,261
Capital expenditures	$193,299	$197,186	$175,437	$182,544	$145,041
Depreciation and amortization	$147,161	$140,228	$130,257	$121,408	$139,166
Number of employees (g)	9,027	9,204	9,149	8,027	7,823

(a) The Company recorded a non-cash goodwill impairment charge of $33,827 in 2018.

(b) The Company recorded $35,378 of deemed repatriation tax and $20,413 for the re-measurement of deferred tax assets in conjunction with U.S. tax reform, as well as a U.K. valuation allowance charge of $18,915, less the reversal of an Asia valuation allowance of $6,671 in 2017.

(c) The non-service cost components of net periodic benefit cost were reclassified outside of operating profit to Other pension and postretirement benefit expense in the amount of $37,523, $53,071, $44,825 and $37,154 in 2017, 2016, 2015 and 2014, respectively, as a result of the adoption of Accounting Standards Update ("ASU") 2017-07 in 2018.

(d) The Company has reclassified its volume and customer rebate program reserves from a contra-asset included within Accounts receivable to a liability within Accrued liabilities in the amount of $100,190, $93,783, $96,927, and $96,995 in 2017, 2016, 2015 and 2014, respectively, as a result of the adoption of Accounting Standards Codification ("ASC") 606 in 2018.

(e) The Company has reclassified its voluntary employee beneficiary association trust from a reduction of accrued benefits within Accrued liabilities to restricted cash included within Other assets of $18,499, $17,100, and $15,030 in 2016, 2015 and 2014, respectively, as a result of the adoption of ASC 2016-18 in 2018.

(f) Unamortized debt issuance costs associated with long-term debt have been reclassified from a noncurrent asset to a reduction of the carrying value of the debt liability upon the adoption of ASU 2015-03 in the amount of $994 in 2014.

(g) The number of employees has been adjusted downward by 1,391, 1,092 and 1,058 in 2016, 2015 and 2014, respectively, to properly reflect members of the COOCSA joint venture workforce who are employed by an employment services company.

(h) The Company sold its ownership interest in Cooper Chengshan (Shandong) Tire Company Ltd. during the fourth quarter of 2014. Results include a gain on sale of interest in subsidiary of $77,471. Income tax expense on the gain on sale of interest in subsidiary was $21,767.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business of the Company

The Company specializes in the design, manufacture, marketing and sales of passenger car, light truck, TBR, motorcycle and racing tires. The Company’s products are sold globally, primarily in the replacement tire market to 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 Company faces both general industry and company-specific challenges. These include volatile raw material costs, increasing product complexity and pressure from competitors who, in some cases, are larger companies with greater financial resources. To address these challenges and position the Company for future success, the Company continues to execute towards strategic imperatives outlined in its Strategic Plan. The three strategic imperatives outlined in the Strategic Plan are building a sustainable cost competitive position, driving top-line profitable growth and building organizational capabilities and enablers to support strategic goals.

The Company has operations in what are considered lower-cost countries. This includes the Cooper Kunshan Tire manufacturing operation in the PRC, joint venture manufacturing operations in Mexico and the PRC and a manufacturing facility in Serbia. Products from these operations provide a lower-cost source of tires for existing markets and have been used to expand the Company’s market share in Mexico and the PRC. Through a variety of other projects, the Company also has improved the competitiveness of its manufacturing operations in the United States.

On December 12, 2018, Cooper Vietnam, a wholly owned subsidiary of Cooper, and Sailun Vietnam entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell TBR tires. The new joint venture is expected to begin producing tires in 2020.

On January 17, 2019, Cooper Tire Europe, a wholly owned subsidiary of the Company, committed to a plan to cease light vehicle tire production at its Melksham, England facility. Light vehicle tire production is expected to be phased out over a period of approximately 10 months. An estimated 300 roles will be eliminated at the site. Cooper Tire Europe will obtain light vehicle tires to meet customer needs from other production sites within the Company’s global production network. Approximately 400 roles will remain in Melksham to support the functions that continue there, including motorsports and motorcycle tire production, the materials business, Cooper Tire Europe headquarters, sales and marketing, and the Europe Technical Center.

The following discussion of financial condition and results of operations should be read together with “Selected Financial Data,” the Company’s consolidated financial statements and the notes to those statements and other financial information included elsewhere in this report.

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, capital resources and critical accounting policies of the Company. The Company's future results may differ materially from those indicated in the forward-looking statements, including for the reasons noted in the Risk Factors in Item 1A.

Consolidated Results of Operations

(Dollar amounts in thousands except per share amounts)

	2018	Change	2017	Change	2016
Net Sales					
Americas Tire	**$2,362,646**	(2.2)%	$2,416,778	(7.1)%	$2,600,323
International Tire	**640,976**	3.6 %	618,869	33.4 %	464,003
Eliminations	**(195,560)**	(8.0)%	(180,991)	(29.8)%	(139,457)
Net sales	**2,808,062**	(1.6)%	2,854,656	(2.4)%	2,924,869
Operating profit (loss):					
Americas Tire	**229,500**	(35.4)%	355,059	(24.7)%	471,613
International Tire	**(14,044)**	n/m	15,168	9.1 %	13,907
Unallocated corporate charges	**(51,564)**	(12.8)%	(59,153)	26.3 %	(46,818)
Eliminations	**1,353**	n/m	(1,827)	46.9 %	(1,244)
Operating profit	**165,245**	(46.6)%	309,247	(29.3)%	437,458
Interest expense	**(32,181)**	0.4 %	(32,048)	20.5 %	(26,604)
Interest income	**10,216**	38.8 %	7,362	68.2 %	4,378
Other pension and postretirement benefit expense	**(27,806)**	(25.9)%	(37,523)	(29.3)%	(53,071)
Other non-operating (expense) income	**(1,416)**	(54.5)%	(3,113)	n/m	4,932
Income before income taxes	**114,058**	(53.2)%	243,925	(33.6)%	367,093
Provision for income taxes	**33,495**	(77.2)%	147,180	27.1 %	115,799
Net income	**80,563**	(16.7)%	96,745	(61.5)%	251,294
Net income attributable to noncontrolling shareholders' interests	**3,977**	195.7 %	1,345	(53.8)%	2,913
Net income attributable to Cooper Tire & Rubber Company	**$76,586**	(19.7)%	$95,400	(61.6)%	$248,381
Basic earnings per share	**$1.52**	(16.9)%	$1.83	(59.9)%	$4.56
Diluted earnings per share	**$1.51**	(16.6)%	$1.81	(59.9)%	$4.51

n/m – not meaningful

2018 versus 2017

Consolidated net sales for the year ended December 31, 2018 were $2,808 million, a decrease of $47 million from 2017. Lower unit volumes ($67 million) were partially offset by favorable foreign currency impact ($17 million) and pricing and mix ($3 million). The negative impact to net sales from lower unit volume was caused by a 2.2 percent unit volume decline in the Americas, coupled with a 5.4 percent decline in the International Tire Operations, compared with 2017.

The Company recorded operating profit of $165 million in 2018, compared to operating profit of $309 million in 2017, a decrease of $144 million. The 2018 results include a goodwill impairment charge ($34 million) in the Company's International Tires Operations segment. Additionally, the Company experienced higher manufacturing costs ($45 million) compared to 2017 in both segments, primarily as a result of the Company's efforts to right-size inventory levels. Lower unit volumes ($18 million) also contributed to the decline in operating profit. The Company also experienced unfavorable price and mix ($22 million), higher raw material costs ($6 million) and increased selling, general and administrative costs ($2 million) compared to 2017. The Company benefited in 2017 from the reversal of $22 million related to preliminary TBR tire duties expensed in 2016. The preliminary TBR tire duties were reversed in the first quarter of 2017 as a result of the International Trade Commission's vote nullifying the preliminary duties. Other operating costs increased from 2017 ($14 million), including start-up costs related to two new U.S. distribution warehouses and increased freight costs. These higher costs were partially offset by lower product liability costs ($8 million) in 2018. Operating profit in 2018 also benefited by $11 million related to the timing of costs and related insurance recoveries resulting from tornado damage at a North American distribution center in 2017.

The Company announced in December a joint venture agreement with Sailun Vietnam to build a new TBR tire production plant in Vietnam. The capacity created by this planned facility will decrease expected production

requirements for Cooper's GRT joint venture in China. The Company included the expected impact of the new Vietnam joint venture on projected future

cash flows in performing its annual goodwill impairment assessment on GRT. Based on the assessment performed, the goodwill balance was deemed to be fully impaired and resulted in a non-cash fourth quarter 2018 impairment charge.
The principal raw materials for the Company include natural rubber, synthetic rubber, carbon black, chemicals and steel reinforcement components. Approximately 70 percent of the Company’s raw materials are petroleum-based. Substantially all U.S. inventories have been valued using the LIFO method of inventory costing, which accelerates the impact to cost of goods sold from changes to raw material prices.
The Company strives to assure raw material and energy supply and to obtain the most favorable pricing possible. For natural rubber, natural gas and certain principal materials, procurement is managed through a combination of buying forward of production requirements and utilizing the spot market. For other principal materials, procurement arrangements include supply agreements that may contain formula-based pricing based on commodity indices, multi-year agreements or spot purchase contracts. While the Company uses these arrangements to satisfy normal manufacturing demands, the pricing volatility in these commodities contributes to the difficulty in managing the costs of raw materials.
Product liability expense decreased $8 million to $18 million in 2018 as compared to $26 million in 2017. Based on the Company's review of its reserves in 2018, 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 provision in 2018. Additional information related to the Company’s accounting for product liability costs appears in the Notes to the Consolidated Financial Statements.
Selling, general, and administrative expenses were $244 million in 2018 (8.7 percent of net sales) and $242 million in 2017 (8.5 percent of net sales). The increase in selling, general and administrative expenses was driven primarily by an increase in incentive compensation and professional fees, partially offset by the absence of costs incurred in 2017 related to the write-off of assets associated with the Company's global ERP system implementation.
Interest expense in 2018 was comparable to 2017. Interest income increased $3 million compared to 2017 as a result of improved interest rates.
As a result of the adoption of ASU 2017-07, the income statement presentation of net periodic benefit cost was changed in the first quarter of 2018. The service cost component of net periodic benefit cost continues to be classified in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are presented in the income statement separately from the service cost component as Other pension and postretirement benefit expense, outside of operating profit. Application of the standard has been applied retrospectively for all periods presented. For the year ended December 31, 2018, other pension and postretirement benefit expense decreased to $28 million from $38 million in 2017. The decrease is primarily the result of decreased amortization of actuarial loss in 2018 as a result of improved funding levels as compared to 2017.
Other expense decreased $2 million compared with 2017, primarily due to the impact of foreign currency forward contracts.
For the year ended December 31, 2018, the Company recorded an income tax expense of $33 million (effective rate of 29.4 percent) compared with $147 million (effective rate of 60.3 percent) in 2017. The 2018 effective rate was unfavorably impacted by the non-deductible GRT goodwill impairment charge. The 2017 effective rate was impacted by a number of unique items. On December 22, 2017, the U.S. enacted comprehensive tax legislation, commonly referred to as the Tax Act, which made broad and complex changes to the tax code. In particular, the transition to a new territorial tax system resulted in a deemed repatriation tax of $35 million on undistributed earnings of foreign subsidiaries. In addition, the reduction of the U.S. corporate tax rate from 35 percent to 21 percent resulted in an adjustment to the company's U.S. deferred tax assets and liabilities to the lower base rate of 21 percent. The impact of the re-measurement of deferred tax assets and liabilities resulted in a non-cash charge of $20 million to the Company's 2017 fourth quarter tax provision. Additionally, the fourth quarter 2017 tax provision includes the impact of the recording of a non-cash valuation allowance based upon the expected realization of certain foreign deferred tax assets related to the Company's European operations of $19 million, partially offset by the reversal of an existing non-cash $7 million valuation allowance in Asia. Aside from the 2017 discrete items, the effective tax rate was also negatively impacted by the mix of earnings, with an increased percentage of earnings in a higher rate tax jurisdiction in 2017.

Net income attributable to noncontrolling shareholders' interests increased $3 million compared with 2017, reflective of higher 2018 net income amongst the impacted entities.

The effects of inflation did not have a material effect on the results of operations of the Company in 2018.

2017 versus 2016

Consolidated net sales for the year ended December 31, 2017 were $2,855 million, a decrease of $70 million from 2016. Lower unit volumes ($83 million) and unfavorable foreign currency impact ($12 million) were partially offset by favorable pricing and mix ($25 million). The favorable pricing and mix was primarily due to net price increases related to higher raw material costs. The negative impact to net sales from lower unit volume was related to a unit volume decline in Americas Tire Operations, partially offset by improved unit volume in International Tire Operations due to increased unit volume in Asia.

The Company recorded operating profit of $309 million in 2017, compared to operating profit of $437 million in 2016. The Company experienced unfavorable raw material costs, net of price and mix, ($125 million) and lower unit volume ($33 million) compared to 2016. The Company also experienced higher manufacturing costs ($38 million) compared to 2016, primarily in the Americas Tire Operations, due to lower production volumes in North America as a result of the decline in unit volume year over year. These higher costs were partially offset by lower product liability costs ($39 million) and decreased selling, general and administrative costs ($11 million). The Company also had a reversal of $22 million related to preliminary truck and bus tire duties expensed in 2016. Other operating costs increased ($4 million), including unfavorable currency impact, compared with 2016.

Product liability expense decreased $39 million to $26 million in 2017 as compared to 2016. Based on the Company's review of its reserves in 2017, 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 in 2017.

Selling, general, and administrative expenses were $242 million in 2017 (8.5 percent of net sales) and $253 million in 2016 (8.6 percent of net sales). The reduction in selling, general and administrative expenses was driven primarily by decreased incentive compensation, partially offset by an increase in professional fees, the write-off of assets related to the Company's global ERP system implementation and costs related to a reduction in force in the U.S.

Interest expense increased $5 million compared with 2016. The increase was a result of increased borrowings and higher interest rates, primarily in Asia. Interest income increased $3 million compared to 2016 as a result of improved interest rates.

For the year ended December 31, 2017, other pension and postretirement benefit expense decreased to $38 million from $53 million in 2016. The 2016 other pension and postretirement benefit expense includes $12 million of expense related to lump-sum distributions which did not recur in 2017. In 2016, in order to reduce the size and potential future volatility of the Company’s domestic defined benefit pension plan obligations, the Company offered certain plan participants with deferred vested benefits the opportunity to make a one-time election to receive a lump sum distribution of their benefits. Based on participants that accepted the offer, the Company paid $23 million of lump-sum distributions from plan assets in the third quarter of 2016, which resulted in a non-cash settlement charge ($11 million) in the third quarter of 2016. An additional non-cash settlement charge ($1 million) was incurred in the fourth quarter of 2016 as a result of normal course settlements.

Other income decreased $8 million compared with 2016, primarily due to the impact of foreign currency forward contracts.

For the year ended December 31, 2017, the Company recorded an income tax expense of $147 million (effective rate of 60.3 percent) compared with $116 million (effective rate of 31.5 percent) in 2016. On December 22, 2017, the U.S. enacted comprehensive tax legislation, commonly referred to as the Tax Act, which made broad and complex changes to the tax code. In particular, the transition to a new territorial tax system resulted in a deemed repatriation tax of $35 million on undistributed earnings of foreign subsidiaries. In addition, the reduction of the U.S. corporate tax rate from 35 percent to 21 percent resulted in an adjustment to the company's U.S. deferred tax assets and liabilities to the lower base rate of 21 percent. The impact of the re-measurement of deferred tax assets and liabilities resulted in a non-cash charge of $20 million to the Company's 2017 fourth quarter tax provision. Additionally, the fourth quarter 2017 tax provision includes the impact of the recording of a non-cash valuation allowance based upon the expected realization of certain foreign deferred tax assets related to the Company's European operations of $19 million, partially offset by the reversal of an existing non-cash $7 million valuation allowance in Asia. Aside from the 2017 discrete items, the effective tax rate was also negatively impacted by the mix of earnings, with an increased percentage of earnings in a higher rate tax jurisdiction in 2017.

Net income attributable to noncontrolling shareholders’ interests decreased $2 million compared with 2016.

The effects of inflation did not have a material effect on the results of operations of the Company in 2017.

Segment Operating Results

The Company has four segments under ASC 280:

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

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

Americas Tire Operations Segment

(Dollar amounts in thousands)

	2018	Change	2017	Change	2016
Sales	$2,362,646	(2.2)%	$2,416,778	(7.1)%	$2,600,323
Operating profit	$229,500	(35.4)%	$355,059	(24.7)%	$471,613
Operating margin	9.7%	(5.0) points	14.7%	(3.4) points	18.1%
Total unit sales change		(2.2)%		(6.3)%	
United States replacement market unit shipment changes:					
Passenger tires					
Segment		(1.8)%		(7.9)%	
USTMA members		(0.6)%		0.3%	
Total Industry		3.4%		0.5%	
Light truck tires					
Segment		(1.4)%		(16.6)%	
USTMA members		(1.3)%		(5.2)%	
Total Industry		0.7%		(1.7)%	
Total light vehicle tires					
Segment		(1.7)%		(10.0)%	
USTMA members		(0.7)%		(0.4)%	
Total Industry		3.0%		0.2%	

The source of this information is the United States Tire Manufactures Association ("USTMA") and internal sources.

Overview

The Americas Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. The segment also has a joint venture manufacturing operation in Mexico, COOCSA, which supplies passenger car tires to the North American, Mexican, Central American and South American markets. The segment also markets and distributes racing, TBR and motorcycle tires. The racing and motorcycle tires are manufactured by the Company's European Operations segment and by others. TBR tires are sourced from GRT and through an off-take agreement that was entered with PCT, the Company's former joint venture. In December 2017, the Company signed an off-take agreement with Sailun Vietnam, effective from January 1, 2018 through December 31, 2020, as an additional source of TBR tires. On December 12, 2018, Cooper Vietnam, a wholly owned subsidiary of Cooper, and Sailun Vietnam entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell TBR tires. The new joint venture is expected to begin producing tires in 2020. Major distribution channels and customers include independent tire dealers, wholesale distributors, regional and national retail tire chains, and large retail chains that sell tires as well as other automotive products. The segment does not currently sell its products directly to end users, except through three Company-owned retail stores. The segment sells a limited number of tires to OEMs.

2018 versus 2017

Sales

Net sales of the Americas Tire Operations segment decreased from $2,417 million in 2017 to $2,363 million in 2018. The decrease in sales was a result of decreased unit volume ($54 million), partially offset by favorable pricing and mix ($3

million), primarily due to net price increases related to higher raw material costs. Foreign currency impact was unfavorable ($3 million). Unit shipments for the segment decreased 2.2 percent in 2018 compared with 2017. In the U.S., the segment’s unit shipments of total light vehicle tires decreased 1.7 percent in 2018 compared with 2017. This decrease compares with a 0.7 percent decrease in total light vehicle tire shipments experienced by the USTMA, and a 3.0 percent increase in total light vehicle tire shipments experienced for the total industry, which includes an estimate for non-USTMA members. The segment's TBR tire shipments for the U.S. increased 1.4 percent in 2018 compared with 2017, outperforming the USTMA, but trailing the total industry.

Operating Profit

Operating profit for the segment decreased $126 million to $230 million in 2018. The segment experienced unfavorable price and mix ($32 million), higher raw material costs ($19 million) and lower unit volumes ($15 million) compared to 2017. The segment also experienced higher manufacturing costs ($32 million) as a result of the Company's efforts to right-size inventory levels, as well as increased selling, general, and administrative costs ($10 million), primarily related increased incentive compensation costs in 2018. The Company benefited in 2017 from the reversal of $22 million related to preliminary TBR tire duties expensed in 2016 and reversed in the first quarter of 2017. Other operating costs increased from 2017 ($15 million), including start-up costs related to two new U.S. distribution warehouses and increased freight costs. These higher costs were partially offset by lower product liability expense ($8 million). 2018 also benefited by $11 million related to the timing of costs and related insurance recoveries resulting from tornado damage at a North American distribution center in 2017.

The segment’s internally calculated raw material index of 163.6 for the year ended December 31, 2018 was an increase of 3.3 percent from 2017.

2017 versus 2016

Sales

Net sales of the Americas Tire Operations segment decreased from $2,600 million in 2016 to $2,417 million in 2017. The decrease in sales was a result of decreased unit volume ($185 million), partially offset by favorable pricing and mix ($3 million), primarily due to net price increases related to higher raw material costs. Foreign currency impact was unfavorable ($1 million). Unit shipments for the segment decreased 6.3 percent in 2017 compared with 2016. In the U.S., the segment’s unit shipments of total light vehicle tires decreased 10.0 percent in 2017 compared with 2016. This decrease compares with a 0.4 percent decrease in total light vehicle tire shipments experienced by the USTMA, and a 0.2 percent increase in total light vehicle tire shipments experienced for the total industry. The segment's commercial truck tire shipments for the U.S. increased 14.7 percent in 2017 compared with 2016, outperforming both the industry and the USTMA.

Operating Profit

Operating profit for the segment decreased $117 million from $472 million in 2016 to $355 million in 2017. The segment experienced unfavorable raw material costs, net of price and mix, ($102 million) and lower unit volumes ($47 million) compared to 2016. The segment also experienced higher manufacturing costs ($47 million) due to lower production volumes as a result of the decline in unit volume year over year. These higher costs were partially offset by lower product liability expense ($39 million) and decreased selling, general, and administrative costs ($25 million), primarily related to reduced incentive compensation compared to 2016. The Company also had a reversal of expense ($22 million) related to preliminary truck and bus tire duties expensed in 2016. Other operating costs increased ($7 million), including unfavorable currency impact, compared with 2016.

The segment’s internally calculated raw material index of 158.3 for the year ended December 31, 2017 was an increase of 14.0 percent from 2016.

International Tire Operations Segment

(Dollar amounts in thousands)

	2018	Change	2017	Change	2016
Sales	$640,976	3.6 %	$618,869	33.4 %	$464,003
Operating (loss) profit	$(14,044)	n/m	$15,168	9.1 %	$13,907
Operating margin	(2.2)%	4.7 points	2.5 %	0.5 points	3.0 %
Total unit sales change		(5.4)%		21.6 %	

Overview

The International Tire Operations segment is the combination of the Europe and Asia operating segments. The European operations include manufacturing operations in the U.K. and Serbia. The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for domestic and global markets. The Serbian entity manufactures passenger car and light truck tires primarily for the European markets and for export to the North American segment. The Asian operations are located in the PRC. Cooper Kunshan Tire manufactures passenger car and light truck tires both for the Chinese domestic market and for export to markets outside of the PRC. On December 1, 2016, the Company acquired 65 percent ownership of China-based GRT, a joint venture manufacturing facility located in the PRC. GRT serves as a global source of TBR tire production for the Company. The segment also had another joint venture in the PRC, PCT, which manufactured and marketed truck and bus radial and bias tires, as well as passenger car and light truck tires for domestic and global markets. The Company sold its ownership interest in this joint venture in November 2014, and the Company began procuring certain TBR and passenger car tires under off-take agreements with PCT through mid-2018, which were subsequently extended and now expire in mid-2020. In December 2017, the Company signed an off-take agreement with Sailun Vietnam, as an additional source of TBR tires. On December 12, 2018, Cooper Vietnam, a wholly owned subsidiary of Cooper, and Sailun Vietnam entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell TBR tires in addition to the off-take agreement. The new joint venture is expected to begin producing tires in 2020. The segment sells a majority of its tires in the replacement market, with a growing portion also sold to OEMs. On January 17, 2019, Cooper Tire Europe, a wholly owned subsidiary of the Company, committed to a plan to cease light vehicle tire production at its Melksham, England facility. Light vehicle tire production is expected to be phased out over a period of approximately 10 months. An estimated 300 roles will be eliminated at the site. Cooper Tire Europe will obtain light vehicle tires to meet customer needs from other production sites within the Company's global production network. Approximately 400 roles will remain in Melksham to support the functions that continue there, including motorsports and motorcycle tire production, the materials business, Cooper Tire Europe headquarters, sales and marketing, and the Europe Technical Center.

2018 versus 2017

Sales

Net sales of the International Tire Operations segment increased $22 million, or 3.6 percent, from 2017. The segment experienced decreased unit volumes ($33 million), which was more than offset by favorable price and mix ($33 million) and favorable foreign currency impact ($22 million) compared with 2017. Unit volume was lower in both China and Europe compared to 2017. Net segment exports to the U.S. decreased compared with 2017.

Operating Profit

Operating profit for the segment decreased $29 million to an operating loss of $14 million in 2018. Results for 2018 included a goodwill impairment charge related to GRT ($34 million), as well as increased manufacturing costs ($14 million) and unfavorable unit volume ($4 million). These items were partially offset by lower raw material costs ($13 million), favorable price and mix ($8 million) and lower selling, general and administrative costs ($2 million) compared to 2017.

2017 versus 2016

Sales

Net sales of the International Tire Operations segment increased $155 million, or 33.4 percent, from 2016. The segment experienced increased unit volumes ($76 million) and favorable price and mix ($89 million), which were partially offset by unfavorable foreign currency impact ($10 million) compared with 2016. Unit volume was higher in China due to increased

sales in the domestic market for both original equipment and replacement tires, while unit volume in Europe declined slightly compared to 2016. Net segment exports to the U.S. increased compared with 2016.

Operating Profit

Operating profit for the segment increased $1 million to an operating profit of $15 million in 2017. The segment experienced favorable unit volume ($11 million), decreased manufacturing costs ($8 million) and lower other costs ($2 million). These items were partially offset by unfavorable raw material costs, net of price and mix, ($20 million) compared to 2016.

Outlook for the Company

In 2019, the Company expects modest unit volume growth compared to 2018.
Operating profit margin is expected to improve throughout the year, with the full year exceeding 2018.
The Company expects its full year 2019 effective tax rate will be in a range between 22 and 25 percent.
The Company expects capital expenditures for 2019 will be in a range between $190 million and $210 million. This does not include capital contributions related to Cooper's pro rata share of the previously announced joint venture with Sailun Vietnam or other potential manufacturing footprint investments.
These 2019 expectations include tariffs already in place, but do not include rate changes or additional tariffs that continue to be considered, but have not yet been imposed.

Liquidity and Capital Resources

Sources and uses of cash in operating activities

Net cash provided by operating activities of continuing operations was $254 million in 2018 compared to $178 million in 2017. Net income provided $81 million in 2018 as compared to net income of $97 million in 2017. In 2018, non-cash items contributed $249 million, including the benefit of the $34 million reduction in goodwill due to an impairment charge, compared to $251 million contributed in 2017, which included a favorable decrease in deferred income taxes due to the re-measurement of U.S. deferred tax assets as a result of the Tax Act. In 2018, changes in working capital used $76 million, as compared to the usage of $170 million in 2017. The 2018 usage was driven primarily by the decrease in the Company's pension and postretirement benefit liabilities and increased accounts and notes receivable, partially offset by benefits provided by decreased inventory in 2018, as a result of the management of inventory levels, and favorable movement in accounts payable due to cash management initiatives. The usage of working capital in 2017 was primarily due to increasing inventory levels, decreased pension and postretirement benefit liabilities, unfavorable movement in accounts payable and the decline of the Company's long-term product liability accrual.

Net cash provided by operating activities of continuing operations was $178 million in 2017 compared to $315 million in 2016. Net income provided $97 million and $251 million in 2017 and 2016, respectively. Net income in 2017 included the benefit of $39 million related to lower product liability expense, changes in the amount of reserves for cases where sufficient information is known to estimate a liability, and changes in assumptions. Other non-cash items totaled $251 million in 2017 compared to $199 million in 2016. The increase in 2017 was due to the re-measurement of U.S. deferred tax assets as result of the Tax Act. Changes in working capital consumed $170 million and $135 million in 2017 and 2016, respectively. The additional consumption in 2017 was the result of several unfavorable cash flow movements in 2017, including the decline of the Company's long-term product liability accrual, decreased pension and postretirement benefit liabilities and unfavorable movement in accounts payable.

Sources and uses of cash in investing activities

Net cash used in investing activities reflect capital expenditures of $193 million, $197 million and $175 million in 2018, 2017 and 2016, respectively.

In 2016, the Company invested $6 million to purchase 65 percent of GRT, net of $8 million of cash acquired.

The Company's capital expenditure commitments at December 31, 2018 were $88 million and are included in the "Purchase Obligations" line of the Contractual Obligations table, which appears later in this section.

Sources and uses of cash in financing activities

In 2018, the Company repaid $20 million of short-term debt at its Asian operations. In 2016, the Company added $10 million of short-term debt at its Asian operations.

The Company repurchased $30 million, $91 million and $108 million of its common stock in 2018, 2017 and 2016, respectively, as part of the Company's share repurchase program authorized by the Board of Directors.

Dividends paid on the Company's common shares were $21 million, $22 million and $23 million in 2018, 2017 and 2016, respectively. The Company has maintained a quarterly dividend of 10.5 cents per share in each quarter during the three years ended December 31, 2018. No dividend was paid to the noncontrolling shareholder in COOCSA in 2018. Dividends paid to the noncontrolling shareholder in COOCSA were less than $1 million in each of 2017 and 2016.

In 2018, 2017, and 2016, stock options were exercised to acquire common stock shares of 16,111, 210,125 and 166,434, respectively. The cash impact of these exercises was $0.3 million, $4 million and $4 million in 2018, 2017 and 2016, respectively. Employee taxes paid as a result of shares withheld in conjunction with stock compensation activity were $2 million, $7 million and $3 million in 2018, 2017, and 2016, respectively.

Available cash, credit facilities and contractual commitments

At December 31, 2018, the Company had cash and cash equivalents of $356 million.

Domestically, the Company has a revolving credit facility with a consortium of banks that provides up to $400 million based on available collateral, including a $110 million letter of credit subfacility, and is set to expire in February 2023. The Company also has an accounts receivable securitization facility with a borrowing limit of up to $150 million, based on available collateral, which expires in February 2021.

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These credit facilities are undrawn, other than to secure letters of credit, at December 31, 2018. The Company's additional borrowing capacity under these facilities, net of amounts used to back letters of credit and based on available collateral at December 31, 2018, was $494 million.

The Company's operations in Asia have annual renewable unsecured credit lines that provide up to $65 million of borrowings and do not contain significant financial covenants. The additional borrowing capacity on the Asian credit lines totaled $50 million at December 31, 2018.

At December 31, 2018, $174 million of unsecured notes due in December 2019 are classified within the current portion of long-term debt. The Company intends to finance all or a portion of the maturing debt through borrowings.

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

The Company's cash requirements relating to contractual obligations at December 31, 2018 are summarized in the following table:

(Dollar amounts in thousands)	Payment Due by Period						
Contractual Obligations	Total	2019	2020	2021	2022	2023	After 2023
Unsecured notes	$290,458	$173,578	$—	$—	$—	$—	$116,880
Capital lease obligations and other	6,245	1,182	—	5,063	—	—	—
Interest on debt and capital lease obligations	88,150	23,127	9,241	8,994	8,912	8,912	28,964
Operating leases	125,729	31,711	27,861	17,158	12,951	9,324	26,724
Notes payable (a)	15,288	15,288	—	—	—	—	—
Purchase obligations (b)	308,812	253,967	54,845	—	—	—	—
Postretirement benefits other than pensions (c)	251,798	15,344	15,927	16,238	16,446	16,557	171,286
Pensions (d)	148,250	45,000	40,000	25,000	20,000	15,000	3,250
Income taxes payable (e)	20,145	—	1,372	—	2,614	7,181	8,978
Other obligations (f)	33,158	10,509	1,340	2,165	972	520	17,652
Total contractual cash obligations	$1,288,033	$569,706	$150,586	$74,618	$61,895	$57,494	$373,734

(a) Financing obtained from financial institutions in the PRC to support the Company's operations there.

(b) Purchase commitments for capital expenditures, TBR truck tires and raw materials, principally natural rubber, made in the ordinary course of business.

(c) Represents benefit payments for postretirement benefits other than pension liabilities.

(d) Represents Company contributions to retirement trusts based on current assumptions.

(e) Represents income taxes payable related to the deemed repatriation tax on undistributed earnings of foreign subsidiaries under the Tax Act, as based on the Company's most recently filed tax returns, as well as anticipated state income tax obligations.

(f) Includes stock-based liabilities, warranty reserve, deferred compensation, nonqualified benefit plans and other non-current liabilities.

Credit agency ratings

Standard & Poor's has rated the Company's long-term corporate credit and senior unsecured debt at BB with a stable outlook. Moody's Investors Service has assigned a Ba3 corporate family rating and a B1 rating to senior unsecured debt with a stable outlook.

New Accounting Standards
For a discussion of recent accounting pronouncements and their impact on the Company, see the “Significant Accounting Policies - Accounting Pronouncements” note to the consolidated financial statements.
Critical Accounting Policies
“Management’s Discussion and Analysis of Financial Condition and Results of Operations” discusses the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. When more than one accounting principle, or the method of its application, is generally accepted, the Company selects the principle or method that is appropriate in its specific circumstances. The Company’s accounting policies are more fully described in the “Significant Accounting Policies” note to the consolidated financial statements. Application of these accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes that of its significant accounting policies, the following may involve a higher degree of judgment or estimation than other accounting policies.
Product liability
The Company is a defendant in various product liability claims brought in numerous jurisdictions in which individuals seek damages resulting from motor vehicle accidents allegedly caused by defective tires manufactured by the Company. Each of the product liability claims faced by the Company generally involves different types of tires and circumstances surrounding the accident such as different applications, vehicles, speeds, road conditions, weather conditions, driver error, tire repair and maintenance practices, service life conditions, as well as different jurisdictions and different injuries. In addition, in many of the Company’s product liability lawsuits the plaintiff alleges that his or her harm was caused by one or more co-defendants who acted independently of the Company. Accordingly, both the claims asserted and the resolutions of those claims have an enormous amount of variability. The aggregate amount of damages asserted at any point in time is not determinable since often times when claims are filed, the plaintiffs do not specify the amount of damages. Even when there is an amount alleged, at times the amount is wildly inflated and has no rational basis.
The fact that the Company is a defendant in product liability lawsuits is not surprising given the current litigation climate, which is largely confined to the United States. However, the fact that the Company is subject to claims does not indicate that there is a quality issue with the Company’s tires. The Company sells approximately 30 to 35 million passenger car, light truck, SUV, TBR and motorcycle tires per year in North America. The Company estimates that approximately 300 million Company-produced tires made up of thousands of different specifications are still on the road in North America. While tire disablements do occur, it is the Company’s and the tire industry’s experience that the vast majority of tire failures relate to service-related conditions, which are entirely out of the Company’s control, such as failure to maintain proper tire pressure, improper maintenance, improper repairs, road hazard and excessive speed.
The Company accrues costs for product liability at the time a loss is probable and the amount of loss can be estimated. The Company believes the probability of loss can be established and the amount of loss can be estimated only after certain minimum information is available, including verification that Company-produced product were involved in the incident giving rise to the claim, the condition of the product purported to be involved in the claim, the nature of the incident giving rise to the claim and the extent of the purported injury or damages. In cases where such information is known, each product liability claim is evaluated based on its specific facts and circumstances. A judgment is then made to determine the requirement for establishment or revision of an accrual for any potential liability. Adjustments to estimated reserves are recorded in the period in which the change in estimate occurs. The liability often cannot be determined with precision until the claim is resolved.
Pursuant to ASU 450 "Contingencies," the Company accrues the minimum liability for each known claim when the estimated outcome is a range of probable loss and no one amount within that range is more likely than another. The Company uses a range of losses because an average cost would not be meaningful since the product liability claims faced by the Company are unique and widely variable, and accordingly, the resolutions of those claims have an

enormous amount of variability. The costs have ranged from zero dollars to $33 million in one case with no “average” that is meaningful. No specific accrual is made for individual unasserted claims or for premature claims, asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known. However, an accrual for such claims based, in part, on management’s expectations for future litigation activity and the settled claims history is maintained. The Company periodically reviews such estimates and any adjustments for changes in reserves are recorded in the period in which the change in estimate occurs. Because of the speculative nature of litigation in the U.S., the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. While the Company believes its reserves are reasonably

stated, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

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

The Company regularly reviews the probable outcome of outstanding legal proceedings and the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated. As part of its regular review, the Company monitors trends that may affect its ultimate liability and analyzes the developments and variables likely to affect pending and anticipated claims against the Company and the reserves for such claims. The Company utilizes claims experience, as well as trends and developments in the litigation climate, in estimating its required accrual. Based on the Company's quarterly review completed in the third quarter of 2018, the Company reduced its estimate of pending and anticipated product liability claims, which resulted in a benefit of $31 million in the quarter. In the third quarter of 2017, a similar review was performed and the Company recognized a benefit of $41 million in the third quarter of 2017. The reduced estimate of pending and anticipated product liability claims, coupled with normal activity, including the addition of another year of self-insured incidents, settlements and changes in the amount of reserves, the Company decreased its accrual from $130 million at December 31, 2017 to $112 million at December 31, 2018.

The addition of another year of self-insured incidents accounted for an increase of $42 million in the Company's product liability reserve in 2018. 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 $39 million. During 2018 the Company paid $21 million and during 2017, the Company paid $56 million to resolve cases and claims. The Company's product liability reserve balance at December 31, 2018 totaled $112 million (the current portion of $31 million is included in Accrued liabilities and the long-term portion is included in Other long-term liabilities on the Consolidated Balance Sheets), and the balance at December 31, 2017 totaled $130 million (current portion of $45 million).

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.

Product liability expense totaled $18 million, $26 million and $65 million in 2018, 2017 and 2016. Product liability expenses are included in Cost of products sold in the Consolidated Statements of Income.

Income Taxes

The Company is required to make certain estimates and judgments to determine income tax expense for financial statement purposes. The more critical estimates and judgments include assessing uncertain tax positions and measuring unrecognized tax benefits, determining whether deferred tax assets will be realized and whether foreign earnings will be indefinitely reinvested. Changes to these estimates may result in an increase or decrease to tax expense in subsequent periods.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across the Company's global operations. The Company applies the rules under ASC 740-10 "Accounting for Uncertainty in Income Taxes" for uncertain tax positions using a "more likely than not" recognition threshold. Pursuant to these rules, the Company will initially recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits of the tax position, that such a position will be sustained upon examination by the relevant tax authorities. If the tax benefit meets the "more likely than not" threshold, the measurement of the tax benefit will be based on the Company's estimate of the ultimate amount to be sustained if audited by the taxing authority. The Company recognizes tax liabilities in accordance with ASC 740-10 and adjusts these liabilities when judgment changes as a result of the evaluation of new information not previously available. Based upon the outcome of tax examinations, judicial proceedings, or expiration of statutes of limitations, it is reasonably 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. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

The Company's liability for unrecognized tax benefits, exclusive of interest, totaled approximately $7 million at December 31, 2018. In accordance with Company policy, certain U.S. federal liabilities relating to 2014 were released following the lapse of statute. The unrecognized tax benefits at December 31, 2018 relate to uncertain tax positions in tax years 2013 through 2018.

The Company must assess the likelihood that it will be able to recover its deferred tax assets. Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating the

Company's ability to recover deferred tax assets within the jurisdiction from which they arise, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies and results of recent operations. In projecting future taxable income, the Company begins with historical results adjusted for the results of discontinued operations and changes in accounting policies, and incorporates assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company uses to manage the underlying businesses. In evaluating the objective evidence that historical results provide, the Company considers three years of cumulative operating income (loss).

The Company continues to maintain a valuation allowance against a portion of its U.S. and non-U.S. deferred tax asset position at December 31, 2018, as it cannot assure the utilization of these assets before they expire. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a loss carryforward by a valuation allowance of $2 million. In addition, the Company has recorded valuation allowances of $21 million relating primarily to non-U.S. pension and net operating loss deferred tax assets for a total valuation allowance of $23 million. In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when they are deemed to be realizable.

The Company generally considers the earnings of certain non-U.S. subsidiaries to be indefinitely reinvested outside the U.S. on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs. Prior to enactment of the Tax Act, the Company did not recognize a deferred tax liability related to the U.S. federal and state income taxes and foreign withholding taxes on unremitted foreign earnings because it overcame the presumption of the repatriation of those earnings. Upon enactment of the Tax Act, the Transition Tax was recorded based on approximately $495 million of unremitted foreign earnings. During 2018, the Company re-evaluated its position on potential earnings repatriation and has concluded that repatriation implications of the Tax Act had no impact on its indefinite reinvestment assertion.

Impairment of long-lived assets, including goodwill

The Company's long-lived assets include property, plant and equipment and other assets that are intangibles, including goodwill. If an indicator of impairment exists for certain groups of property, plant and equipment or definite-lived intangible assets, the Company will compare the forecasted undiscounted cash flows attributable to the assets to their carrying values. If the carrying values exceed the undiscounted cash flows, the Company then determines the fair values of the assets. If the carrying values of the assets exceed the fair values of the assets, an impairment charge is recognized for the difference.

The Company assesses the potential impairment of its indefinite-lived assets, including goodwill, at least annually or when events or circumstances indicate impairment may have occurred. The carrying value of these assets is compared to their fair value. If the carrying values exceed the fair values, an impairment charge equal to that excess is recorded.

In December 2018, the Company announced a joint venture agreement with Sailun Vietnam to build a new TBR tire production plant in Vietnam. The capacity created by this planned facility will decrease expected production requirements for Cooper's GRT joint venture in China. The Company included the expected impact of the new Vietnam joint venture in performing its annual goodwill impairment assessment on GRT. Based on the assessment performed, the goodwill balance was deemed to be fully impaired and resulted in a fourth quarter 2018 goodwill impairment charge of $34 million.

The Company cannot predict the occurrence of future impairment-triggering events. Such events may include, but are not limited to, significant industry or economic trends and strategic decisions made in response to changes in the economic and competitive conditions impacting the Company's businesses.

Pension and postretirement benefits

The Company has recorded significant pension liabilities in the U.S. and the U.K. and other postretirement benefit ("OPEB") liabilities in the U.S. that are developed from actuarial valuations. The determination of the Company's pension liabilities requires key assumptions regarding discount rates used to determine the present value of future benefit payments and expected returns on plan assets. The discount rate is also significant to the development of

OPEB liabilities. The Company determines these assumptions in consultation with its investment advisers and actuaries.

The discount rate reflects the rate used to estimate the value of the Company's pension and OPEB liabilities for which they could be settled at the end of the year. When determining the discount rate, the Company discounted the expected pension disbursements over the next one hundred years using spot rates from a high quality corporate bond yield curve and computed a single equivalent rate. Based upon this analysis, the Company used a discount rate of 4.05 percent to measure its U.S. pension liabilities at December 31, 2018, which is higher than the 3.50 percent used at December 31, 2017. Similarly, the Company

discounted the expected disbursements of its OPEB liabilities and, based upon this analysis, the Company used a discount rate of 4.05 percent to measure its OPEB liabilities at December 31, 2018, which is higher than the 3.50 percent used at December 31, 2017. A similar analysis was completed in the U.K. and the Company increased the discount rate used to measure its U.K. pension liabilities to 2.80 percent at December 31, 2018 from 2.50 percent at December 31, 2017.

The effects of a hypothetical change in discount rate may be nonlinear and asymmetrical for future years as the change in discount rate and the corresponding accounting are applied. Holding all other assumptions constant, an increase or decrease of 25 basis points in the December 31, 2018, discount rate assumption would have the following estimated effects on the December 31, 2018 pension and other post-retirement benefit obligations and 2019 expected pension and other post-retirement expense:

$ increase (decrease) in thousands	25 Basis Point Decrease in Discount Rate	25 Basis Point Increase in Discount Rate
Pension expense	$2,198	$(2,143)
Other post-retirement benefit expense	(259)	207
Pension obligation	28,065	(26,758)
Other post-retirement benefit obligation	7,238	(6,891)

The assumed long-term rate of return on pension plan assets is applied to the market value of plan assets to derive a reduction to pension expense that approximates the expected average rate of asset investment return over ten or more years. A decrease in the expected long-term rate of return will increase pension expense, whereas an increase in the expected long-term rate will reduce pension expense. Decreases in the level of actual plan assets will serve to increase the amount of pension expense, whereas increases in the level of actual plan assets will serve to decrease the amount of pension expense. Any shortfall in the actual return on plan assets from the expected return will increase pension expense in future years due to the amortization of the shortfall, whereas any excess in the actual return on plan assets from the expected return will reduce pension expense in future periods due to the amortization of the excess.

The Company's investment strategy is to manage the plans' asset allocation relative to the liability profile and funded status of the plans. It is expected that as the plan's funded status improves, the portfolio will take less risk as to preserve the funded status of the plan framework. The plans follow a glide path whereby a target return-seeking allocation is followed based upon a given funded ratio level. The plans' position with respect to the glide path is monitored and asset allocation and strategy changes to the plans' portfolio are made as appropriate. The plans' strategy is also monitored in relation to the capital markets, interest rates, and the regulatory environment. The Company's current asset allocation for U.S. plans' assets is 68 percent in fixed income collective trust funds, 26 percent in equity collective trust funds, 3 percent in other investment based collective trust funds and 3 percent in cash. The Company's current asset allocation for U.K. plan assets is 70 percent in fixed income securities, 17 percent in equity securities, 12 percent in other investments, and 1 percent in cash. The Company determines the annual rate of return on pension assets by first analyzing the composition of its asset portfolio. Historical rates of return are applied to the portfolio and may be adjusted based on a review by the Company's investment advisers and actuaries. Industry comparables and other outside guidance are also considered in the annual selection of the expected rates of return on pension assets.

The actual return on U.S. pension plans' assets was a loss of approximately 3.50 percent in 2018 compared to an asset gain of approximately 14.22 percent in 2017. The actual return on U.K. pension plan assets was a loss of approximately 2.23 percent in 2018 compared to an asset gain of 8.28 percent in 2017. The Company's estimate for the expected long-term return on its U.S. plan assets used to derive 2018 and 2017 pension expense was 6.25 percent and 6.50 percent, respectively. The expected long-term return on U.K. plan assets used to derive the 2018 and 2017 pension expense was 3.20 percent percent and 3.30 percent, respectively. Holding all other assumptions constant, an increase or decrease of 25 basis points in our December 31, 2018 expected return on assets assumption would increase or decrease the net periodic benefit cost by $2,245, respectively.

The Company has accumulated net deferred losses resulting from the shortfalls and excesses in actual returns on pension plan assets from expected returns and, in the measurement of pensions and OPEB liabilities, decreases and

increases in the discount rate and differences between actuarial assumptions and actual experience totaling $438 million at December 31, 2018. These amounts are being amortized in accordance with the corridor amortization requirements of U.S. GAAP over periods ranging from 8 years to 10 years. Amortization of these net deferred losses was $37 million in 2018 and $42 million in 2017.

The Company has implemented household caps on the amounts of retiree medical benefits it will provide to certain retirees in the U.S. The caps do not apply to individuals who retired prior to certain specified dates. Costs in excess of these caps will be paid by plan participants. The Company implemented increased cost sharing in 2004 in the retiree medical coverage provided to certain eligible current and future retirees. Since then, cost sharing has expanded such that nearly all covered retirees pay a charge to be enrolled.

In accordance with U.S. GAAP, the Company recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its pension and OPEB plans and the net unrecognized actuarial losses and unrecognized prior service costs in the consolidated balance sheets. The unrecognized actuarial losses and unrecognized prior service costs (components of Accumulated other comprehensive loss in the Equity section of the balance sheet) will be subsequently recognized as net periodic benefit costs pursuant to the Company's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit costs in the same periods will be recognized as a component of other comprehensive income.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to fluctuations in interest rates and currency exchange rates from its financial instruments. The Company actively monitors its exposure to risk from changes in foreign currency exchange rates and interest rates. Derivative financial instruments are used to reduce the impact of these risks. See the "Significant Accounting Policies - Derivative financial instruments" and "Fair Value of Financial Instruments" notes to the consolidated financial statements for additional information.

The Company has estimated its market risk exposures using sensitivity analyses. These analyses measure the potential loss in future earnings, cash flows or fair values of market sensitive instruments resulting from a hypothetical ten percent change in interest rates or foreign currency exchange rates.

A decrease in interest rates by ten percent of the actual rates would have adversely affected the fair value of the Company's fixed-rate, long-term debt by approximately $6 million at both December 31, 2018 and 2017.

An increase in interest rates by ten percent of the actual rates for the Company's floating rate long-term debt obligations would not have been material to the Company's results of operations and cash flows.

To manage the volatility of currency exchange exposures related to future sales and purchases in foreign currencies, the Company first nets the exposures to take advantage of natural offsets. Then, for the residual portion, the Company enters into forward exchange contracts with maturities of less than 12 months pursuant to the Company's policies and hedging practices. The changes in fair value of these hedging instruments are offset, in part or in whole, by corresponding changes in the fair value of cash flows of the underlying exposures being hedged. The Company's unprotected exposures to earnings and cash flow fluctuations due to changes in foreign currency exchange rates were not significant at December 31, 2018 and 2017.

The Company enters into foreign exchange contracts to manage its exposure to foreign currency denominated receivables and payables. The impact from a ten percent change in foreign currency exchange rates on the Company's foreign currency denominated obligations and related foreign exchange contracts would not have been material to the Company's results of operations and cash flows.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED STATEMENTS OF INCOME
(Dollar amounts in thousands except per share amounts)

	Year Ended December 31,		
	2018	2017	2016
Net sales	**$2,808,062**	$2,854,656	$2,924,869
Cost of products sold	**2,364,769**	2,303,261	2,234,786
Gross profit	**443,293**	551,395	690,083
Selling, general and administrative expense	**244,221**	242,148	252,625
Goodwill impairment charge	**33,827**	—	—
Operating profit	**165,245**	309,247	437,458
Interest expense	**(32,181)**	(32,048)	(26,604)
Interest income	**10,216**	7,362	4,378
Other pension and postretirement benefit expense	**(27,806)**	(37,523)	(53,071)
Other non-operating (expense) income	**(1,416)**	(3,113)	4,932
Income before income taxes	**114,058**	243,925	367,093
Provision for income taxes	**33,495**	147,180	115,799
Net income	**80,563**	96,745	251,294
Net income attributable to noncontrolling shareholders' interests	**3,977**	1,345	2,913
Net income attributable to Cooper Tire & Rubber Company	**$76,586**	$95,400	$248,381
Earnings per share:			
Basic	**$1.52**	$1.83	$4.56
Diluted	**$1.51**	$1.81	$4.51

See Notes to Consolidated Financial Statements, pages 44 to 79.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollar amounts in thousands except per share amounts)

	Year Ended December 31,		
	2018	2017	2016
Net income	**$80,563**	$96,745	$251,294
Other comprehensive income (loss):			
Cumulative currency translation adjustments	**(24,430)**	38,850	(57,954)
Financial instruments:			
Change in the fair value of derivatives	**2,628**	(2,473)	(2,371)
Income tax (provision) benefit on derivative instruments	**(827)**	855	884
Financial instruments, net of tax	**1,801**	(1,618)	(1,487)
Postretirement benefit plans:			
Amortization of actuarial loss	**37,203**	42,570	43,624
Amortization of prior service credit	**(541)**	(566)	(566)
Actuarial gain (loss)	**9,209**	13,385	(39,689)
Pension settlement charges	**—**	—	12,262
Income tax provision on postretirement benefit plans	**(8,326)**	(14,718)	(9,299)
Foreign currency translation effect	**(264)**	(7,855)	13,152
Postretirement benefit plans, net of tax	**37,281**	32,816	19,484
Other comprehensive income (loss)	**14,652**	70,048	(39,957)
Comprehensive income	**95,215**	166,793	211,337
Less comprehensive income (loss) attributable to noncontrolling shareholders' interests	**1,740**	4,720	(1,660)
Comprehensive income attributable to Cooper Tire & Rubber Company	**$93,475**	$162,073	$212,997

See Notes to Consolidated Financial Statements, pages 44 to 79.

CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands)

	December 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 356,254**	$ 371,684
Notes receivable	**5,737**	13,753
Accounts receivable, less allowances of $5,836 at 2018 and $7,570 at 2017	**546,905**	528,250
Inventories:		
Finished goods	**338,133**	365,672
Work in process	**27,265**	31,000
Raw materials and supplies	**114,582**	115,085
Total inventories	**479,980**	511,757
Other current assets	**67,856**	63,063
Total current assets	**1,456,732**	1,488,507
Property, plant and equipment:		
Land and land improvements	**52,668**	52,683
Buildings	**314,555**	311,199
Machinery and equipment	**1,981,857**	1,890,210
Molds, cores and rings	**238,911**	220,528
Total property, plant and equipment	**2,587,991**	2,474,620
Less: Accumulated depreciation	**1,586,070**	1,507,873
Property, plant and equipment, net	**1,001,921**	966,747
Goodwill	**18,851**	54,613
Intangibles, net of accumulated amortization of $112,621 at 2018 and $93,353 at 2017	**120,321**	133,256
Restricted cash	**2,025**	1,422
Deferred income tax assets	**28,146**	58,665
Other assets	**6,209**	4,715
Total assets	**$ 2,634,205**	$ 2,707,925

See Notes to Consolidated Financial Statements, pages 44 to 79.

CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands, except par value amounts)
(Continued)

	December 31,	
	2018	2017
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	**$15,288**	$39,450
Accounts payable	**286,671**	277,060
Accrued liabilities	**282,650**	280,666
Income taxes payable	**975**	6,954
Current portion of long-term debt	**174,760**	1,413
Total current liabilities	**760,344**	605,543
Long-term debt	**121,284**	295,987
Postretirement benefits other than pensions	**236,454**	256,888
Pension benefits	**147,950**	219,534
Other long-term liabilities	**135,730**	144,217
Equity:		
Preferred stock, $1 par value; 5,000,000 shares authorized; none issued		
Common stock, $1 par value; 300,000,000 shares authorized; 87,850,292 shares issued at 2018 and 2017	**87,850**	87,850
Capital in excess of par value	**21,124**	20,740
Retained earnings	**2,449,714**	2,394,372
Accumulated other comprehensive loss	**(461,589)**	(478,478)
Parent stockholders' equity before treasury stock	**2,097,099**	2,024,484
Less: Common shares in treasury at cost (37,776,659 at 2018 and 36,908,553 at 2017)	**(925,056)**	(897,388)
Total parent stockholders' equity	**1,172,043**	1,127,096
Noncontrolling shareholders' interests in consolidated subsidiaries	**60,400**	58,660
Total equity	**1,232,443**	1,185,756
Total liabilities and equity	**2,634,205**	2,707,925

See Notes to Consolidated Financial Statements, pages 44 to 79.

CONSOLIDATED STATEMENTS OF EQUITY
(Dollar amounts in thousands except per share amounts)

	Common Stock $1 Par Value	Capital in Excess of Par Value	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Common Shares in Treasury	Total Parent Stockholders' Equity	Noncontrolling Shareholders' Interests in Consolidated Subsidiaries	Total
Balance at December 31, 2015	$ 87,850	$ 16,306	$ 2,095,923	$ (509,767)	$ (711,064)	$ 979,248	$ 38,363	$ 1,017,611
Net income	—	—	248,381	—	—	248,381	2,913	251,294
Other comprehensive loss	—	—	—	(35,384)	—	(35,384)	(4,573)	(39,957)
Comprehensive income (loss)	—	—	248,381	(35,384)	—	212,997	(1,660)	211,337
Dividends payable to noncontrolling shareholder	—	—	—	—	—	—	(804)	(804)
Acquisition of business	—	—	—	—	—	—	18,323	18,323
Share repurchase program	—	—	—	—	(107,999)	(107,999)	—	(107,999)
Stock compensation plans, including tax benefit of $274	—	9,570	(52)	—	5,078	14,596	—	14,596
Cash dividends - $0.42 per share	—	—	(22,828)	—	—	(22,828)	—	(22,828)
Balance at December 31, 2016	87,850	25,876	2,321,424	(545,151)	(813,985)	1,076,014	54,222	1,130,236
Net income	—	—	95,400	—	—	95,400	1,345	96,745
Other comprehensive income	—	—	—	66,673	—	66,673	3,375	70,048
Comprehensive income	—	—	95,400	66,673	—	162,073	4,720	166,793
Dividends payable to noncontrolling shareholder	—	—	—	—	—	—	(282)	(282)
Share repurchase program	—	—	—	—	(90,868)	(90,868)	—	(90,868)
Stock compensation plans	—	(5,136)	(538)	—	7,465	1,791	—	1,791
Cash dividends - $0.42 per share	—	—	(21,914)	—	—	(21,914)	—	(21,914)
Balance at December 31, 2017	87,850	20,740	2,394,372	(478,478)	(897,388)	1,127,096	58,660	1,185,756
Net income	—	—	76,586	—	—	76,586	3,977	80,563
Other comprehensive income	—	—	—	16,889	—	16,889	(2,237)	14,652
Comprehensive income	—	—	76,586	16,889	—	93,475	1,740	95,215
Share repurchase program	—	—	—		(30,183)	(30,183)	—	(30,183)
Stock compensation plans	—	384	(106)	—	2,515	2,793	—	2,793
Cash dividends - $0.42 per share	—	—	(21,138)	—	—	(21,138)	—	(21,138)
Balance at December 31, 2018	**$ 87,850**	**$ 21,124**	**$ 2,449,714**	**$ (461,589)**	**$ (925,056)**	**$ 1,172,043**	**$ 60,400**	**$ 1,232,443**

See Notes to Consolidated Financial Statements, pages 44 to 79.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)

	Year Ended December 31,		
	2018	2017	2016
Operating activities:			
Net income	**$80,563**	$96,745	$251,294
Adjustments to reconcile net income to net cash from operations:			
Depreciation and amortization	**147,161**	140,228	130,257
Deferred income taxes	**30,519**	61,571	(12,350)
Stock-based compensation	**3,868**	4,009	13,570
Change in LIFO inventory reserve	**(3,026)**	2,981	11,990
Amortization of unrecognized postretirement benefits	**36,662**	42,004	43,058
Goodwill impairment charge	**33,827**	—	—
Pension settlement charges	**—**	—	12,262
Changes in operating assets and liabilities:			
Accounts and notes receivable	**(19,729)**	(18,646)	(42,530)
Inventories	**27,438**	(31,820)	(77,872)
Other current assets	**(2,080)**	(15,648)	3,831
Accounts payable	**10,646**	(31,217)	13,128
Accrued liabilities	**7,635**	(12,226)	(22,286)
Pension and postretirement benefits	**(77,883)**	(54,385)	(29,853)
Other items	**(21,298)**	(5,972)	20,168
Net cash from operating activities	**254,303**	177,624	314,667
Investing activities:			
Additions to property, plant and equipment and capitalized software	**(193,299)**	(197,186)	(175,437)
Acquisition of business, net of cash acquired	**—**	—	(5,928)
Proceeds from the sale of assets	**160**	278	337
Net cash used in investing activities	**(193,139)**	(196,908)	(181,028)
Financing activities:			
Net (payments on) issuances of short-term debt	**(20,027)**	(1,507)	10,019
Repayments of long-term debt	**(1,395)**	(2,421)	(935)
Payment of financing fees	**(1,230)**	—	—
Repurchase of common stock	**(30,183)**	(90,868)	(107,999)
Payments of employee taxes withheld from share-based awards	**(2,111)**	(7,002)	(2,948)
Payment of dividends to noncontrolling shareholders	**—**	(282)	(804)
Payment of dividends to Cooper Tire & Rubber Company stockholders	**(21,138)**	(21,914)	(22,828)
Issuance of common shares related to stock-based compensation	**306**	4,224	3,950
Excess tax benefits on stock-based compensation	**—**	—	274
Net cash used in financing activities	**(75,778)**	**(119,770)**	**(121,271)**
Effects of exchange rate changes on cash	**554**	7,111	(11,178)
Net change in cash, cash equivalents and restricted cash	**(14,060)**	(131,943)	1,190
Cash, cash equivalents and restricted cash at beginning of year	**392,306**	524,249	523,059
Cash, cash equivalents and restricted cash at end of year	**$378,246**	$392,306	$524,249

See Notes to Consolidated Financial Statements, pages 44 to 79.

Notes to Consolidated Financial Statements
(Dollar amounts in thousands except per share amounts)
Note 1. Significant Accounting Policies
Principles of consolidation – The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Acquired businesses are included in the consolidated financial statements from the dates of acquisition. All intercompany accounts and transactions have been eliminated.
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 power to control. Control generally equates to ownership percentage, whereby investments that are more than 50 percent owned are consolidated, investments in subsidiaries of 50 percent or less but greater than 20 percent are accounted for using the equity method, and investments in subsidiaries 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.
Cash and cash equivalents – The Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents.
The Company’s objectives related to the investment of cash not required for operations is to preserve capital, meet the Company’s liquidity needs and earn a return consistent with these guidelines and market conditions. Investments deemed eligible for the investment of the Company’s cash include: 1) U.S. Treasury securities and general obligations fully guaranteed with respect to principal and interest by the government; 2) obligations of U.S. government agencies; 3) commercial paper or other corporate notes of prime quality purchased directly from the issuer or through recognized money market dealers; 4) time deposits, certificates of deposit or bankers’ acceptances of banks rated “A-” by Standard & Poor’s or “A3” by Moody’s; 5) collateralized mortgage obligations rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s; 6) tax-exempt and taxable obligations of state and local governments of prime quality; and 7) mutual funds or outside managed portfolios that invest in the above investments. The Company had cash and cash equivalents totaling $356,254 and $371,684 at December 31, 2018 and December 31, 2017, respectively. The majority of the cash and cash equivalents were invested in eligible financial instruments in excess of amounts insured by the Federal Deposit Insurance Corporation and, therefore, subject to credit risk. Management believes that the probability of losses related to credit risk on investments classified as cash and cash equivalents is remote.
Notes receivable – The Company has received bank secured notes from certain of its customers in the PRC to settle trade accounts receivable. These notes generally have maturities of six months or less and are redeemable at the bank of issuance. The Company evaluates the credit risk of the issuing bank prior to accepting a bank secured note from a customer. Management believes that the probability of material losses related to credit risk on notes receivable is remote.
Accounts receivable – The Company records trade accounts receivable when revenue is recorded in accordance with its revenue recognition policy and relieves accounts receivable when payments are received from customers.
Allowance for doubtful accounts – The allowance for doubtful accounts is established through charges to the provision for bad debts. The Company evaluates the adequacy of the allowance for doubtful accounts throughout the year. The evaluation includes historical trends in collections and write-offs, management’s judgment of the probability of collecting specific accounts and management’s evaluation of business risk. This evaluation is inherently subjective, as it requires estimates that are susceptible to revision as more information becomes available. Accounts are determined to be uncollectible when the debt is deemed to be worthless or only recoverable in part, and are written off at that time through a charge against the allowance for doubtful accounts.
Inventories – Inventory costs are determined using the LIFO method for substantially all U.S. inventories. Costs of other inventories have been determined by the first-in, first-out FIFO method. Inventories include direct material, direct labor, and applicable manufacturing and engineering overhead costs. FIFO inventories are valued at cost, which is not in excess of the net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. LIFO inventories are valued at the lower of cost or market.

Long-lived assets – Property, plant and equipment are recorded at cost and depreciated using the straight-line method over the following expected useful lives:

Land improvements	10 to 20 years
Buildings	10 to 40 years
Machinery and equipment	5 to 14 years
Furniture and fixtures	5 to 10 years
Molds, cores and rings	2 to 10 years

The Company capitalizes certain internal and external costs incurred to acquire or develop internal-use software. Capitalized software costs are amortized over the estimated useful life of the software, which ranges from two to eight years.

Intangibles with definite lives include trademarks, technology and intellectual property which are amortized over their remaining useful lives, which range from one to two years. Land use rights are amortized over their remaining useful lives, which range from 37 to 44 years. The Company evaluates the recoverability of long-lived assets based on undiscounted projected cash flows, excluding interest and taxes, when any impairment is indicated. Goodwill and indefinite-lived intangibles are assessed for potential impairment at least annually or when events or circumstances indicate impairment may have occurred.

Earnings per common share – Net income per share is computed on the basis of the weighted average number of common shares outstanding each year. 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:

(Number of shares and dollar amounts in thousands except per share amounts)

	2018	2017	2016
Numerator			
Numerator for basic and diluted earnings per share - income from continuing operations available to common stockholders	**$76,586**	$95,400	$248,381
Denominator			
Denominator for basic earnings per share - weighted average shares outstanding	**50,350**	52,206	54,480
Effect of dilutive securities - stock options and other stock units	**247**	467	610
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	**50,597**	52,673	55,090
Earnings per share:			
Basic	**$1.52**	$1.83	$4.56
Diluted	**$1.51**	$1.81	$4.51

At December 31, 2018, 2017 and 2016, 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.

Derivative financial instruments – Derivative financial instruments are utilized by the Company to reduce foreign currency exchange risks. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes. The Company offsets fair value amounts recognized on the Consolidated Balance Sheets for derivative financial instruments executed with the same counter-party.

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

Foreign currency forward contracts are also used to hedge variable cash flows associated with forecasted sales and purchases denominated in currencies that are not the functional currency of certain entities. The forward contracts have maturities of less than twelve months pursuant to the Company's policies and hedging practices. These forward

contracts meet the criteria for and have been designated as cash flow hedges. Accordingly, the effective portion of the change in fair value of unrealized gains and losses on such forward contracts are recorded as a separate component of stockholders' equity in the accompanying Consolidated Balance Sheets and reclassified into earnings as the hedged transaction affects earnings.

The Company assesses hedge effectiveness quarterly. In doing so, the Company monitors the actual and forecasted foreign currency sales and purchases versus the amounts hedged to identify any hedge ineffectiveness. The Company also performs regression analysis comparing the change in value of the hedging contracts versus the underlying foreign currency sales and purchases, which confirms a high correlation and hedge effectiveness. Any hedge ineffectiveness is recorded as an adjustment in the accompanying Consolidated Statements of Income in the period in which the ineffectiveness occurs.

The Company is exposed to price risk related to forecasted purchases of certain commodities that are used as raw materials, principally natural rubber. Accordingly, it uses commodity contracts with forward pricing for a portion of its production requirements. These contracts generally qualify for the normal purchase exception under guidance for derivative instruments and hedging activities, and therefore are not subject to its provisions.

Income taxes – Income tax expense is based on reported earnings or losses before income taxes in accordance with the tax rules and regulations of the specific legal entities within the various specific taxing jurisdictions where the Company’s income is earned. Taxable income may differ from earnings before income taxes for financial accounting purposes. To the extent that differences are due to revenue or expense items reported in one period for tax purposes and in another period for financial accounting purposes, a provision for deferred income taxes is made using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset may not be realized. Deferred income taxes generally are not recorded on the majority of undistributed earnings of international subsidiaries based on the Company’s intention that these earnings will continue to be reinvested. Upon enactment of the Tax Act, the Transition Tax was recorded based on approximately $495 million of unremitted foreign earnings. During 2018, the Company re-evaluated its position on potential earnings repatriation and has concluded that repatriation implications of the Tax Act had no impact on its indefinite reinvestment assertion. As such, no change has been made with respect to that assertion for the year ended December 31, 2018.

Product liability – 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 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.

Advertising expense – Expenses incurred for advertising include production and media and are generally expensed when incurred. Costs associated with dealer-earned cooperative advertising are recorded as a reduction of the revenue

component of Net sales at the time of sale. Advertising expense for 2018, 2017 and 2016 was $54,177, $52,798 and $53,715, respectively.
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 fair value on the date of grant and is amortized to expense over the vesting period. If awards can be settled in cash, these awards are recorded as liabilities and marked to market. See Note 13 – Stock-Based Compensation for additional information.
Warranties – Warranties are provided on the sale of certain of the Company's products and an accrual for estimated future claims is recorded at the time revenue is recognized. Tire replacement under most of the warranties the Company offers is on a prorated basis. The Company provides for the estimated cost of product warranties based primarily on historical return rate

s, 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 which are recorded in Accrued liabilities and Other long-term liabilities on the Company’s Consolidated Balance Sheets:

	2018	2017	2016
Reserve at beginning of year	**12,093**	10,634	12,339
Additions	**13,187**	10,310	8,349
Payments	**(12,849)**	(8,851)	(10,054)
Reserve at December 31	**12,431**	12,093	10,634

Use of estimates – The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of: (1) revenues and expenses during the reporting period; and (2) assets and liabilities, as well as disclosure of contingent assets and liabilities, at the date of the consolidated financial statements. Actual results could differ from those estimates.

Revenue recognition – In accordance with ASC 606 and ASU 2014-09, effective January 1, 2018, revenues are recognized when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. Shipping and handling costs are recorded in cost of products sold. Allowance programs such as volume rebates and cash discounts are recorded at the time of sale as a reduction to revenue based on anticipated accrual rates for the year.

Research and development – Costs are charged to cost of products sold as incurred and amounted to approximately $64,007, $59,869 and $55,534 during 2018, 2017 and 2016, respectively.

Related Party Transactions – The Company’s COOCSA joint venture paid $28,023, $40,279 and $33,774 in 2018, 2017 and 2016, respectively, to an employment services company in Mexico owned by members of the joint venture workforce. COOCSA also recorded sales of $4,713, $8,209 and $6,335 to the noncontrolling shareholder in 2018, 2017 and 2016, respectively. The Company purchased $775 of TBR tires from Saliun Vietnam in 2018 through an off-take agreement between the two parties.

Truck and Bus Tire Tariffs – Antidumping and countervailing duty investigations into certain TBR tires imported from the 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 U.S. International Trade Commission determined the U.S. market had not suffered material injury because of imports of TBR tires from China. As a result of this decision, preliminary antidumping and countervailing duties from Chinese TBR tires imported subsequent to the preliminary determination were not to be collected and any amounts previously paid have been refunded by U.S. Customs and Border Protection. Further, prospective imports of TBR 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 Consolidated Statement of Income for the year ended December 31, 2017.

North American Distribution Center – On January 22, 2017, a tornado hit the Company’s leased Albany, Georgia distribution center, causing damage to the Company's assets and disrupting certain operations. Insurance, less applicable deductibles, covered the repair or replacement of the Company's assets that suffered loss or damage, and the Company worked 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 provided 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. For the year ended December 31, 2017, the Company incurred direct expenses of $12,583, less proceeds of $7,000 recovered from insurance. Values reported here are reflective of actual amounts incurred and received during 2017, as updated from previously estimate-based values. For the year ended December 31, 2018, the Company recorded insurance recoveries of $7,300, while incurring direct costs of $1,569. These amounts were recorded as a component of Cost of products sold in the Condensed Consolidated Statements of Income for the twelve months ended December 31, 2018 and 2017,

respectively. In total, the Company incurred direct expenses of $14,152 related to the tornado, offset by insurance recoveries of $14,300. The Company's insurance claim related to the tornado has been closed, with no further direct expenses or insurance recoveries anticipated.

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

Accounting Pronouncements – Recently adopted

Revenue Recognition

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

Pensions and Postretirement Benefits Other than Pensions

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires changes to the income statement presentation of net periodic benefit cost. The service cost component of net periodic benefit cost will continue to be classified in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component and outside of operating profit. In addition, the new standard will allow only the service cost component to be eligible for capitalization, when applicable. The Company adopted the new standard as of January 1, 2018 and revised prior periods in accordance with the standard. See Note 10 - Pensions and Postretirement Benefits Other than Pensions for additional details.

Statement of Cash Flows

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

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Cash and cash equivalents	$356,254	$371,684	$504,423	$505,157
Restricted cash included in Other current assets	19,967	19,200	18,499	17,100
Restricted cash included in Other assets	2,025	1,422	1,327	802
Total cash, cash equivalents and restricted cash	$378,246	$392,306	$524,249	$523,059

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

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 and has been elected by the Company in 2018. Refer to Note 5 - Goodwill and Intangibles for further discussion of the current year goodwill impairment testing.

Comprehensive Income
In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which provides for an election to reclassify stranded tax effects within accumulated other comprehensive income (loss) to retained earnings due to the U.S. federal corporate income tax rate change in the Tax Cuts and Jobs Act of 2017. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company has elected not to reclassify the stranded tax effects due to the Tax Cuts and Jobs Act within accumulated other comprehensive income, as such reclassification is not deemed beneficial to users of the financial statements.

SEC Disclosure Regulation Simplifications
During the fourth quarter of 2018, the SEC published Final Rule Release No. 33-10532, "Disclosure Update and Simplification." This standard, effective for quarterly and annual reports submitted after November 5, 2018, streamlines disclosure requirements by removing certain redundant topics. For the Company, the most notable simplifications include removal of research and development expenses from Item 1 of the Form 10-K, as well as the high and low stock prices and frequency and amount of dividends details from Item 5 of the Form 10-K. Simplifications to be implemented in the first quarter of 2019 in Form 10-Q include the expansion of the shareholders' equity reconciliation to display quarter-to-quarter details.
Accounting Pronouncements – To be adopted

Leases
In February 2016, the FASB issued ASU 2016-02, “Leases,” which requires balance sheet recognition of lease liabilities and right-of-use assets for most leases having terms of twelve months or longer. The Company will adopt the standard on the required effective date of January 1, 2019 using the transition option, “Comparatives Under 840 Option,” established by ASU 2018-11, Leases (Topic 842), Targeted Improvements (ASU 2018-11). The FASB issued multiple amendments to the standard which provided clarification, additional guidance, practical expedients and other improvements to ASU 2016-02.
The new guidance requires recognition of lease assets and liabilities for operating leases with terms of more than 12 months, in addition to those currently recorded, on the Company's consolidated balance sheets. Presentation of leases within the consolidated statements of operations and consolidated statements of cash flows will generally be consistent with the current lease accounting guidance. The adoption of the lease standard will result in the recognition of a right-of-use asset and a right-of-use liability on the consolidated balance sheets in a range of approximately $100 to $120 million, based on the present value of future lease payments. The Company anticipates further refinement of this estimate during the first quarter of 2019. The Company's adoption approach will result in a balance sheet presentation that will not be comparable to the prior period in the first year of adoption. The Company does not believe the standard will materially affect consolidated net earnings, liquidity or debt covenant compliance under existing debt agreements.

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

Additionally, in October 2018, the FASB issued ASU 2018-16, "Derivatives and Hedging (Topic 815)." The Federal Reserve and Alternative Reference Rates Committee expressed the importance of including the Overnight Index Swap (OIS) rate based on Secured Overnight Financing Rate (SOFR) as a benchmark rate for hedge accounting purposes in facilitating broader use of the underlying SOFR rate in the marketplace to facilitate the move away from LIBOR. This update, effective on January 1, 2019, provides the option to use the OIS rate based on SOFR as a benchmark for hedge

accounting. The Company does not currently hold any SOFR-based instruments, but will continue to evaluate its use as the markets transition away from LIBOR.

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820)," which removes, modifies and adds various disclosure requirements around the topic in order to clarify and improve the cost-benefit nature of disclosures. For example, disclosures around transfers between fair value hierarchy levels will be removed and further detail around changes in unrealized gains and losses for the period and unobservable inputs determining level 3 fair value measurements will be added. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its consolidated financial statements.

Defined Benefit Plans
In August 2018, the FASB issued ASU 2018-14, "Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20)," which removes, modifies and adds various disclosure requirements around the topic in order to clarify and improve the cost-benefit nature of disclosures. For example, disclosures around the effect of a one-percentage-point change in assumed health care costs will be removed and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period will be added. This standard is effective for fiscal years ending after December 15, 2020, and early adoption is permitted. These amendments must be applied on a retrospective basis for all periods presented. The Company is currently evaluating the impact the new standard will have on its consolidated financial statements.

Internal-Use Software
In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)," which aligns the requirements for capitalizing implementation costs incurred in a service contract hosting arrangement with those of developing or obtaining internal-use software. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its consolidated financial statements.
Related Parties
In October 2018, the FASB issued ASU 2018-17 "Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for VIEs." When determining if fees paid to decision makers and service providers are variable interests, entities must now also consider indirect interests of those decision makers and service providers held through related parties under common control. This standard is effective January 1, 2020, with early adoption permitted. The Company is currently evaluating the impact the new standard will have on its consolidated financial statements.

Note 2. Revenue from Contracts with Customers

Accounting policy

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

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

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue. Shipping and handling costs associated with outbound freight after control of a product has transferred to a customer are accounted for as a fulfillment cost and not as a separate performance obligation. Therefore, such items are accrued upon recognition of revenue.

Nature of goods and services

The following is a description of principal activities, separated by reportable segments, from which the Company generates its revenue. See Note 18 - Business Segments for additional details on the Company's reportable segments. The Company’s reportable segments have the following revenue characteristics:

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

Disaggregation of revenue

In the following tables, revenue is disaggregated by major market channel for the year ended December 31, 2018:

	Americas	International	Eliminations	Total
Light vehicle[1]	$2,115,942	$ 481,499	$(109,400)	$2,488,041
Truck and bus radial	194,558	101,744	(86,160)	210,142
Other[2]	52,146	57,733	—	109,879
Net sales	$2,362,646	$ 640,976	$(195,560)	$2,808,062

[1] Light vehicle includes passenger car and light truck tires

[2] Other includes motorcycle and racing tires, wheels, tire retread material, and other items

Contract balances

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

Significant changes in the contract liabilities balance during the year ended December 31, 2018 are as follows:

	Contract Liabilities
Contract liabilities at beginning of year	$ 1,111
Increases to deferred revenue for cash received in advance from customers	11,427
Decreases due to recognition of deferred revenue	(11,591)
Contract liabilities at December 31, 2018	$ 947

Transaction price allocated to remaining performance obligations

For the year ended December 31, 2018, revenue recognized from performance obligations related to prior periods was not material.

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

The Company applies the practical expedient in ASC 606 "Revenue from Contracts with Customers" and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Changes in accounting policies

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

Impacts on financial statements

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

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

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

Note 3. GRT Acquisition

On January 4, 2016, the Company announced that it had entered into an agreement to purchase a majority of China-based 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 were consolidated from the date of the closing.

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

The GRT acquisition has been accounted for as a purchase transaction. The total consideration has been allocated to the assets acquired, liabilities assumed and noncontrolling shareholder interest based on their estimated fair values at December 1, 2016. The excess purchase price over the estimated fair value of the net assets acquired has been allocated to goodwill. Goodwill

consists of anticipated growth opportunities for GRT and is recorded in the Asia segment, which is included in the International Tire 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 were provisional and were based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed on December 1, 2016, translated into U.S. dollars at the exchange rate on that date. Subsequent to December 1, 2016, the valuation was completed and adjustments were made to the allocations of the fair value of the assets acquired and liabilities assumed from the GRT acquisition.

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

The Company has determined that the nonrecurring fair value measurements related to each of these assets and liabilities rely primarily on Company-specific inputs and the Company's assumptions about the use of the assets and settlement of liabilities, as observable inputs are not available and, as such, reside within Level 3 of the fair value hierarchy as defined in Note 9 - Fair Value Measurements. The Company utilized a third party to assist in the fair value determination of certain components of the purchase price allocation, namely Property, plant and equipment and the Noncontrolling shareholder interest. 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.

During the third quarter of 2018, the noncontrolling shareholder of GRT signed a share transfer agreement to transfer its 35 percent ownership to Sailun Jinyu Group Co., Ltd. ("Sailun Parent"). The transfer of ownership has no financial impact on the Company.

On December 12, 2018, Cooper Vietnam, a wholly owned subsidiary of Cooper, and Sailun Vietnam entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell TBR tires. The new joint venture is expected to begin producing tires in 2020. The capacity created by this planned facility will decrease expected production requirements for Cooper's GRT joint venture. The Company included the expected impact of the new Vietnam joint venture on projected future cash flows in performing its annual goodwill impairment assessment on GRT. Based on the assessment performed, the goodwill balance was deemed to be fully impaired and resulted in a

non-cash fourth quarter 2018 impairment charge of $33,827. Refer to Note 5 - Goodwill and Intangibles for further discussion of the current year goodwill impairment testing.

Note 4. Inventories

Inventory costs are determined using the LIFO method for substantially all U.S. inventories. The current cost of the U.S. inventories under the FIFO method was $380,990 and $415,640 at December 31, 2018 and 2017, respectively. These FIFO values have been reduced by approximately $85,068 and $88,094 at December 31, 2018 and 2017, respectively, to arrive at the LIFO value reported on the Consolidated Balance Sheets. The remaining inventories have been valued under the FIFO method. All LIFO inventories are valued at the lower of cost or market. All other inventories are stated at the lower of cost or net realizable value.

Note 5. Goodwill and Intangibles

Goodwill is recorded in the segment where it was generated by acquisitions. The Company had recorded goodwill in the amount of $33,250 related to the acquisition of GRT in the International Tire Operations segment in 2016 and $18,851 related to the acquisition of additional ownership of COOCSA in the Americas Tire Operations segment in 2011. See Note 3 - GRT Acquisition for a discussion of the goodwill recorded during 2016 and 2017. Goodwill prior to 2011 was zero.

Purchased goodwill and indefinite-lived intangible assets are tested annually for impairment, unless indicators are present that would require an earlier test. On December 12, 2018, Cooper Vietnam, a wholly owned subsidiary of Cooper, and Sailun Vietnam entered into an equity joint venture contract to establish a joint venture in Vietnam which will produce and sell TBR tires. The new joint venture is expected to begin producing tires in 2020. The capacity created by this planned facility will decrease expected production requirements for Cooper's GRT joint venture. The Company included the expected impact of the new Vietnam joint venture on projected future cash flows in performing its annual goodwill impairment assessment on GRT. Based on the assessment performed, the goodwill balance was deemed to be fully impaired and resulted in a non-cash fourth quarter 2018 impairment charge of $33,827 recorded in the Consolidated Statement of Income. The fair value of GRT utilized in the goodwill impairment assessment was determined based upon internal and external inputs considering various market transactions and discounted cash flow valuation methods, among other factors. This valuation approach represents a Level 3 fair value measurement measured on a non-recurring basis in the fair value hierarchy due to the Company's use of Company-specific inputs and unobservable measurement inputs.

During the fourth quarter of 2018, the Company also completed its annual goodwill and intangible asset impairment tests and no impairment was indicated for the goodwill related to the acquisition of additional ownership of COOCSA or the Company's other indefinite-lived intangible assets.

The following table presents intangible assets and accumulated amortization balances as of December 31, 2018 and 2017:

	December 31, 2018			December 31, 2017		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived:						
Capitalized software costs	**197,338**	**(97,972)**	**99,366**	192,474	(81,908)	110,566
Land use rights	**14,526**	**(3,860)**	**10,666**	12,850	(1,230)	11,620
Trademarks and tradenames	**8,000**	**(7,823)**	**177**	8,800	(7,547)	1,253
Other	**3,261**	**(2,966)**	**295**			