COOPER TIRE & RUBBER CO
Form 10-Q
October 31, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

Commission File No. 1-4329

COOPER TIRE & RUBBER COMPANY

(Exact name of registrant as specified in its charter)

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

701 Lima Avenue, Findlay, Ohio 45840

(Address of principal executive offices)

(Zip code)

(419) 423-1321

(Registrant s telephone number, including area code)

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

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

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

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

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

Number of shares of common stock of registrant outstanding as of October 26, 2016: 53,468,977

Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Dollar amounts in thousands except per-share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Net sales	**$ 750,913**	$ 782,368	**$ 2,140,982**	$ 2,197,355
Cost of products sold	**597,961**	628,414	**1,657,932**	1,751,754
Gross profit	**152,952**	153,954	**483,050**	445,601
Selling, general and administrative expense	**63,262**	71,787	**192,339**	193,652
Pension settlement charge	**11,462**		**11,462**	
Operating profit	**78,228**	82,167	**279,249**	251,949
Interest expense	**(6,795)**	(5,889)	**(19,717)**	(18,485)
Interest income	**1,018**	533	**2,907**	1,609
Other non-operating income	**1,785**	1,362	**4,672**	3,034
Income before income taxes	**74,236**	78,173	**267,111**	238,107
Provision for income taxes	**23,757**	24,524	**86,509**	81,818
Net income	**50,479**	53,649	**180,602**	156,289
Net income attributable to noncontrolling shareholder interests	**1,176**	473	**1,545**	2,769
Net income attributable to Cooper Tire & Rubber Company	**$ 49,303**	$ 53,176	**$ 179,057**	$ 153,520
Basic earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	**$ 0.91**	$ 0.94	**$ 3.26**	$ 2.68
Diluted earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	**$ 0.90**	$ 0.93	**$ 3.23**	$ 2.65
Dividends per share	**$ 0.105**	$ 0.105	**$ 0.315**	$ 0.315

See accompanying notes to Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Dollar amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Net income	**$ 50,479**	$ 53,649	**$ 180,602**	$ 156,289
Other comprehensive income (loss)				
Foreign currency translation adjustments	**(10,946)**	(22,506)	**(36,137)**	(26,072)
Financial instruments				
Change in the fair value of derivatives	**1,173**	1,360	**(4,578)**	(684)
Income tax (provision) benefit on derivative instruments	**(420)**	(505)	**1,743**	327
Financial instruments, net of tax	**753**	855	**(2,835)**	(357)
Postretirement benefit plans				
Amortization of actuarial loss	**10,820**	11,708	**32,690**	35,066
Amortization of prior service credit	**(141)**	(141)	**(424)**	(425)
Actuarial loss	**(26,494)**		**(26,494)**	
Pension settlement charge	**11,462**		**11,462**	
Income tax benefit (provision) on postretirement benefit plans	**6,314**	(4,108)	**(1,366)**	(12,313)
Foreign currency translation effect	**2,513**	3,934	**9,748**	2,943
Postretirement benefit plans, net of tax	**4,474**	11,393	**25,616**	25,271
Other comprehensive income (loss)	**(5,719)**	(10,258)	**(13,356)**	(1,158)
Comprehensive income	**44,760**	43,391	**167,246**	155,131
Less: comprehensive loss attributable to noncontrolling shareholder interests	**(144)**	(1,904)	**(1,571)**	(1,261)
Comprehensive income attributable to Cooper Tire & Rubber Company	**$ 44,904**	$ 45,295	**$ 168,817**	$ 156,392

See accompanying notes to Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands except per-share amounts)

	Sept. 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 450,348**	$ 505,157
Notes receivable	**5,947**	8,750
Accounts receivable, less allowances of $7,676 at 2016 and $7,533 at 2015	**434,580**	371,757
Inventories at lower of cost or market:		
Finished goods	**371,140**	297,967
Work in process	**27,235**	26,666
Raw materials and supplies	**97,720**	87,928
	496,095	412,561
Other current assets	**44,797**	36,405
Total current assets	**1,431,767**	1,334,630
Property, plant and equipment:		
Land and land improvements	**48,535**	49,782
Buildings	**281,082**	277,034
Machinery and equipment	**1,682,052**	1,637,637
Molds, cores and rings	**222,466**	236,370
	2,234,135	2,200,823
Less: accumulated depreciation	**1,421,844**	1,405,625
Net property, plant and equipment	**812,291**	795,198
Goodwill	**18,851**	18,851
Intangibles, net of accumulated amortization of $72,754 at 2016 and $62,274 at 2015	**132,380**	133,490
Restricted cash	**1,014**	802
Deferred income tax assets	**133,990**	136,310
Other assets	**15,575**	16,895
Total assets	**$ 2,545,868**	$ 2,436,176
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	**$ 12,222**	$ 12,437
Accounts payable	**225,662**	215,850
Accrued liabilities	**221,258**	199,368
Income taxes payable	**10,973**	4,748

Current portion of long-term debt	**600**	600
Total current liabilities	**470,715**	433,003
Long-term debt	**295,874**	296,412
Postretirement benefits other than pensions	**251,219**	249,650
Pension benefits	**284,223**	304,621
Other long-term liabilities	**145,048**	132,594
Deferred income tax liabilities	**2,049**	2,285
Equity:		
Preferred stock, $1 par value; 5,000,000 shares authorized; none issued		
Common stock, $1 par value; 300,000,000 shares authorized; 87,850,292 shares issued	**87,850**	87,850
Capital in excess of par value	**23,900**	16,306
Retained earnings	**2,257,686**	2,095,923
Accumulated other comprehensive loss	**(520,007)**	(509,767)
	1,849,429	1,690,312
Less: common shares in treasury at cost (34,185,177 at 2016 and 32,017,754 at 2015)	**(788,677)**	(711,064)
Total parent stockholders equity	**1,060,752**	979,248
Noncontrolling shareholder interest in consolidated subsidiary	**35,988**	38,363
Total equity	**1,096,740**	1,017,611
Total liabilities and equity	**$ 2,545,868**	$ 2,436,176

See accompanying notes to Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollar amounts in thousands)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Operating activities:		
Net income	**$ 180,602**	$ 156,289
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**96,928**	90,588
Stock-based compensation	**11,800**	11,710
Change in LIFO inventory reserve	**(3,426)**	(45,132)
Amortization of unrecognized postretirement benefits	**32,266**	34,641
Pension settlement charge	**11,462**	
Changes in operating assets and liabilities:		
Accounts and notes receivable	**(67,940)**	(66,628)
Inventories	**(89,877)**	(5,762)
Other current assets	**(13,788)**	(19,193)
Accounts payable	**13,370**	(24,849)
Accrued liabilities	**19,008**	45,489
Other items	**(13,725)**	(43,911)
Net cash provided by operating activities	**176,680**	133,242
Investing activities:		
Additions to property, plant and equipment and capitalized software	**(126,921)**	(128,601)
Proceeds from the sale of assets	**331**	1,555
Net cash used in investing activities	**(126,590)**	(127,046)
Financing activities:		
Net payments on short-term debt	**(645)**	(39,131)
Repayments of long-term debt	**(600)**	(3,125)
Payment of financing fees		(2,586)
Repurchase of common stock	**(82,486)**	(82,800)
Payment of dividends to noncontrolling shareholder	**(804)**	(917)
Payment of dividends to Cooper Tire & Rubber Company stockholders	**(17,242)**	(17,998)
Issuance of common shares and excess tax benefits on stock options	**3,710**	19,665
Net cash used in financing activities	**(98,067)**	(126,892)
Effects of exchange rate changes on cash	**(6,832)**	(6,724)
Net change in cash and cash equivalents	**(54,809)**	(127,420)

Cash and cash equivalents at beginning of year	**505,157**	551,652
Cash and cash equivalents at end of period	**$ 450,348**	$ 424,232

See accompanying notes to Condensed Consolidated Financial Statements.

COOPER TIRE & RUBBER COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands except per-share amounts)

1. Basis of Presentation and Consolidation

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

There is a year-round demand for the Company s passenger and truck replacement tires, but sales of light vehicle replacement tires are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of June through November. Operating results for the nine-month period ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ended December 31, 2016.

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

Joint Venture Agreement

On January 4, 2016, the Company announced that it had entered into an agreement to purchase a majority of China-based Qingdao Ge Rui Da Rubber Co., Ltd. (GRT). The Company will own 65 percent of the entity for 600,000 RMB, or approximately $92,000 as of the date the agreement was signed, including the acquisition and initial investments in the operation. The transaction is expected to close in the fourth quarter of 2016, pending certain permits and approvals by the Chinese government.

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

After the acquisition, GRT is expected to serve as a global source of truck and bus radial tire production for the Company. Passenger car radial tires may also be manufactured at the facility in the future.

Accounting Pronouncements

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

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

Accounting Pronouncements To Be Adopted

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

Inventory In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, which is intended to simplify the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in, first-out and the retail inventory method. Application of the standard, which should be applied prospectively, is required for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

Leases In February 2016, the FASB issued ASU 2016-02, Leases, which requires balance sheet recognition of lease liabilities and right-of-use assets for most leases having terms of twelve months or longer. Application of the standard, which should be applied using a modified retrospective approach, is required for the annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

Stock Compensation In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which requires all excess tax benefits or deficiencies to be recognized as income tax expense or benefit in the income statement.

In addition, excess tax benefits should be classified along with other income tax cash flows as an operating activity in the statement of cash flows. Application of the standard is required for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements.

2. Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the dilutive effect of stock options and other stock units. The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Numerator				
Numerator for basic and diluted earnings per share - Net income attributable to common stockholders	**$ 49,303**	$ 53,176	**$ 179,057**	$ 153,520
Denominator				
Denominator for basic earnings per share - weighted average shares outstanding	**54,055**	56,693	**54,869**	57,332
Effect of dilutive securities - stock options and other stock units	**625**	539	**590**	602
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	**54,680**	57,232	**55,459**	57,934
Basic earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	**$ 0.91**	$ 0.94	**$ 3.26**	$ 2.68
Diluted earnings per share:				
Net income attributable to Cooper Tire & Rubber Company common stockholders	**$ 0.90**	$ 0.93	**$ 3.23**	$ 2.65

All options to purchase shares of the Company s common stock were included in the computation of diluted earnings per share as the options exercise prices were less than the average market price of the common shares at both September 30, 2016 and 2015.

3. Inventories

Inventory costs are determined using the last-in, first-out (LIFO) method for substantially all U.S. inventories. The current cost of the U.S. inventories under the first-in, first-out (FIFO) method was $433,004 and $361,779 at September 30, 2016 and December 31, 2015, respectively. These FIFO values have been reduced by approximately $69,697 and $73,123 at September 30, 2016 and December 31, 2015, respectively, to arrive at the LIFO value reported on the Condensed Consolidated Balance Sheets. The remaining inventories have been valued under the FIFO or average cost methods. All inventories are stated at the lower of cost or market.

4. Fair Value Measurements

Derivative financial instruments are utilized by the Company to reduce foreign currency exchange risks. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes. The derivative financial instruments include fair value and cash flow hedges of foreign currency exposures. The change in values of the fair value foreign currency hedges offsets exchange rate fluctuations on the foreign currency-denominated intercompany loans and obligations. The Company presently hedges exposures in the Euro, Canadian dollar, British pound sterling, Swiss franc, Swedish krona, Norwegian krone, Mexican peso and Chinese yuan, generally for transactions expected to occur within the next 12 months. The notional amount of these foreign currency derivative instruments at September 30, 2016 and December 31, 2015 was $124,781 and $68,732, respectively. The counterparties to each of these agreements are major commercial banks.

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

Foreign currency forward contracts are also used to hedge variable cash flows associated with forecasted sales and purchases denominated in currencies that are not the functional currency of certain entities. The forward contracts have maturities of less than twelve months pursuant to the Company s policies and hedging practices. These forward contracts meet the criteria for and have been designated as cash flow hedges. Accordingly, the effective portion of the change in fair value of such forward contracts (approximately ($1,178) and $3,400 as of September 30, 2016 and December 31, 2015, respectively) are recorded as a separate component of stockholders equity in the accompanying Condensed Consolidated Balance Sheets and reclassified into earnings as the hedged transactions occur.

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

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

	September 30, 2016	December 31, 2015
Assets/(liabilities)		
Designated as hedging instruments:		
Gross amounts recognized	$ (1,260)	$ 3,559
Gross amounts offset	82	(35)
Net amounts	$ (1,178)	$ 3,524
Not designated as hedging instruments:		
Gross amounts recognized	(214)	174
Net amounts presented:		
Accrued liabilities	$ (1,392)	$
Other current assets	$	$ 3,698

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives Designated as Cash Flow Hedges	2016	2015	2016	2015
Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion)	$ 599	$ 5,712	$ (3,757)	$ 10,658
Amount of (Loss) Gain Reclassified from Cumulative Other Comprehensive Loss into Income (Effective Portion)	(574)	4,352	821	11,342
Amount of (Loss) Gain Recognized in Income on Derivatives (Ineffective Portion)		(53)		28

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives not Designated as Hedging Instruments		2016	2015	2016	2015
Foreign exchange contracts	Other non-operating income	$ 330	$ (879)	$ (645)	$ 405

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

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

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

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

a. Quoted prices for similar assets or liabilities in active markets;

b. Quoted prices for identical or similar assets or liabilities in non-active markets;

c. Pricing models whose inputs are observable for substantially the full term of the asset or liability; and

d. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

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

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

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

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

		September 30, 2016		
	Total Liabilities	**Quoted Prices in Active Markets for Identical Assets Level (1)**	**Significant Other Observable Inputs Level (2)**	**Significant Unobservable Inputs Level (3)**
Foreign Exchange Contracts	**$ (1,392)**	**$**	**$ (1,392)**	**$**
Stock-based Liabilities	**$ (19,872)**	**$ (19,872)**	**$**	**$**

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

The fair market value of Cash and cash equivalents, Notes receivable, Restricted cash, Notes payable and Current portion of long-term debt at September 30, 2016 and December 31, 2015 are equal to their corresponding carrying values as reported on the Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, respectively. Each of these classes of assets and liabilities is classified as Level 1 within the fair value hierarchy.

The fair market value of Long-term debt is $332,121 and $323,522 at September 30, 2016 and December 31, 2015, respectively, and is classified within Level 1 of the fair value hierarchy. The carrying value of Long-term debt is $295,874 and $296,412 as reported on the Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, respectively.

5. Income Taxes

For the quarter ended September 30, 2016, the Company recorded income tax expense of $23,757 (effective rate of 32.0 percent) compared with $24,524 (effective rate of 31.4 percent) for the comparable period in 2015. For the nine-month period ended September 30, 2016, the Company recorded income tax expense of $86,509 (effective rate of 32.4 percent) compared with $81,818 (effective rate of 34.4 percent) for the comparable period in 2015. The 2016 quarter and nine-month period income tax expense is calculated using the forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. This rate differs from the U.S. federal statutory rate of 35 percent primarily because of the projected mix of earnings in international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances.

Income tax expense for the current quarter is comparable to the same period from the prior year on lower earnings primarily due to decreased discrete tax benefits recognized in the current period compared to the same period from the prior year. Income tax expense for the nine-month period is higher compared to the same period from the prior year due to increased earnings, partially offset by the benefit of a higher mix of earnings in international jurisdictions with lower tax rates.

The Company continues to maintain a valuation allowance pursuant to ASC 740, Accounting for Income Taxes, against a portion of its U.S. and non-U.S. deferred tax asset position at September 30, 2016, as it cannot assure the utilization of these assets before they expire. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a loss carryforward by a valuation allowance of $2,096. In addition, the Company has recorded valuation allowances of $12,799 relating to non-U.S. net operating losses for a total valuation allowance of $14,895. In conjunction with the Company s ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when they are deemed to be realizable.

The Company maintains an ASC 740-10, Accounting for Uncertainty in Income Taxes, liability for unrecognized tax benefits for permanent and temporary differences. At September 30, 2016, the Company s liability, exclusive of interest, totals approximately $3,756. The Company increased the amount of unrecognized tax benefits during the quarter primarily as a result of additional uncertain tax positions, partially offset by lapses in statutes. The Company accrued an immaterial amount of interest expense related to these unrecognized tax benefits during the quarter. Based upon the outcome of tax examinations, judicial proceedings, or expiration of statutes of limitations, it is possible that the ultimate resolution of these unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities.

The Company and its subsidiaries are subject to income tax examination in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company has effectively settled U.S. federal tax examinations for years before 2013 and state and local examinations for years before 2011, with limited exceptions. Non-U.S. subsidiaries of the Company are no longer subject to income tax examinations in major foreign taxing jurisdictions for years prior to 2008. The income tax returns of various subsidiaries in various jurisdictions are currently under examination and it is possible that these examinations will conclude within the next twelve months. However, it is not possible to estimate net increases or decreases to the Company s unrecognized tax benefits during the next twelve months.

6. Pensions and Postretirement Benefits Other than Pensions

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

	Pension Benefits - Domestic			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Components of net periodic benefit cost:				
Service cost	**$ 2,403**	$ 2,759	**$ 7,210**	$ 8,278
Interest cost	**10,617**	10,051	**31,850**	30,151
Expected return on plan assets	**(13,391)**	(13,665)	**(40,175)**	(40,995)
Amortization of actuarial loss	**9,576**	9,878	**28,729**	29,636
Pension settlement charge	**11,462**		**11,462**	
Net periodic benefit cost	**$ 20,667**	$ 9,023	**$ 39,076**	$ 27,070

	Pension Benefits - International			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Components of net periodic benefit cost:				
Service cost	**$ 2**	$ 2	**$ 7**	$ 7
Interest cost	**3,417**	4,018	**10,877**	11,920
Expected return on plan assets	**(2,744)**	(3,148)	**(8,736)**	(9,339)
Amortization of actuarial loss	**1,244**	1,830	**3,961**	5,430
Net periodic benefit cost	**$ 1,919**	$ 2,702	**$ 6,109**	$ 8,018

	Other Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Components of net periodic benefit cost:				
Service cost	**$ 537**	$ 628	**$ 1,611**	$ 1,884
Interest cost	**2,705**	2,580	**8,115**	7,740
Amortization of prior service cost	**(141)**	(141)	**(424)**	(425)
Net periodic benefit cost	**$ 3,101**	$ 3,067	**$ 9,302**	$ 9,199

Pension Settlement Charge

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

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

7. Product Warranty Liabilities

The Company provides for the estimated cost of product warranties at the time revenue is recognized based primarily on historical return rates, estimates of the eligible tire population and the value of tires to be replaced. The following table summarizes the activity in the Company s product warranty liabilities:

	2016	2015
Reserve at beginning of year	**$ 12,339**	$ 14,005
Additions	**6,831**	7,106
Payments	**(7,486)**	(8,272)
Reserve at September 30	**$ 11,684**	$ 12,839

8. Stockholders Equity

The following table reconciles the beginning and end of the period equity accounts attributable to Cooper Tire & Rubber Company and to the noncontrolling shareholder s interest:

	Total Parent Stockholders Equity	Total Equity Noncontrolling Shareholder Interest in Consolidated Subsidiary	Total Stockholders Equity
Balance at December 31, 2015	$ 979,248	$ 38,363	$ 1,017,611
Net income	179,057	1,545	180,602
Other comprehensive income (loss)	(10,240)	(3,116)	(13,356)
Share repurchase program	(82,486)		(82,486)
Stock compensation plans	12,415		12,415

Cash dividends - $0.315 per share	(17,242)		(17,242)
Dividend paid to noncontrolling shareholder		(804)	(804)
Balance at September 30, 2016	$ 1,060,752	$ 35,988	$ 1,096,740