COOPER TIRE & RUBBER CO
Form 10-Q
May 08, 2008

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

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

For the quarterly period ended March 31, 2008

OR

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

Commission File No. 1-4329

COOPER TIRE & RUBBER COMPANY

(Exact name of registrant as specified in its charter)

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

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

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

Yes þ No o

Indicate by check mark whether the registrant 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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o No þ

Number of shares of common stock of registrant outstanding
at April 30, 2008: 58,897,151

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Part I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

	December 31, 2007 (Note 1)	**March 31, 2008 (Unaudited)**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 345,947	**$ 266,041**
Short-term investments	49,765	**49,139**
Accounts receivable, less allowances of $8,631 in 2007 and $9,735 in 2008	354,939	**376,490**
Inventories at lower of cost or market:		
Finished goods	185,658	**253,831**
Work in process	30,730	**44,404**
Raw materials and supplies	88,172	**103,335**
	304,560	**401,570**
Other current assets	134,713	**133,845**
Total current assets	1,189,924	**1,227,085**
Property, plant and equipment:		
Land and land improvements	37,299	**37,299**
Buildings	340,512	**348,033**
Machinery and equipment	1,646,590	**1,671,072**
Molds, cores and rings	273,032	**276,997**
	2,297,433	**2,333,401**
Less accumulated depreciation and amortization	1,305,657	**1,330,919**
Net property, plant and equipment	991,776	**1,002,482**
Goodwill	24,439	**24,439**
Intangibles, net of accumulated amortization of $22,893 in 2007 and $23,927 in 2008	28,014	**26,980**
Restricted cash	2,791	**2,743**
Other assets	59,924	**63,001**
	$ 2,296,868	**$ 2,346,730**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 86,384	**$ 126,503**
Payable to noncontrolling owner of subsidiary	10,364	**3,707**
Accounts payable	291,257	**306,930**
Accrued liabilities	141,748	**144,803**

Income taxes	1,450	**1,398**
Liabilities related to the sale of automotive operations	1,332	**1,424**
Current portion of long term debt		**17,160**
Total current liabilities	532,535	**601,925**
Long-term debt	464,608	**435,775**
Postretirement benefits other than pensions	244,491	**246,912**
Other long-term liabilities	163,723	**172,005**
Long-term liabilities related to the sale of automotive operations	10,185	**9,655**
Noncontrolling shareholders interests in consolidated subsidiaries	89,035	**95,371**
Stockholders equity:		
Preferred stock, $1 par value; 5,000,000 shares authorized; none issued		
Common stock, $1 par value; 300,000,000 shares authorized; 86,322,514 shares issued in 2007 and in 2008	86,323	**86,323**
Capital in excess of par value	40,676	**42,363**
Retained earnings	1,350,527	**1,346,017**
Cumulative other comprehensive loss	(205,677)	**(197,103)**
	1,271,849	**1,277,600**
Less: common shares in treasury at cost (26,661,295 in 2007 and 27,425,363 in 2008)	(479,558)	**(492,513)**
Total stockholders equity	792,291	**785,087**
	$ 2,296,868	**$ 2,346,730**

See accompanying notes.

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COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2007 AND 2008
(UNAUDITED)
(Dollar amounts in thousands except per-share amounts)

	2007	**2008**
Net sales	$ 669,600	**$ 679,321**
Cost of products sold	598,761	**623,083**
Gross profit	70,839	**56,238**
Selling, general and administrative	40,663	**46,684**
Restructuring	1,047	
Operating profit	29,129	**9,554**
Interest expense	(12,519)	**(11,478)**
Interest income	3,529	**3,723**
Debt extinguishment expense		**(583)**
Dividend from unconsolidated subsidiary	2,007	**1,943**
Other net	4,606	**1,317**
Income from continuing operations before income taxes and noncontrolling shareholders interests	26,752	**4,476**
Provision for income taxes	6,848	**1,048**
Income from continuing operations before noncontrolling shareholders interests	19,904	**3,428**
Noncontrolling shareholders interests, net of income taxes	(399)	**(2,086)**
Income from continuing operations	19,505	**1,342**
Income from discontinued operations, net of income taxes	1,246	**344**
Net income	$ 20,751	**$ 1,686**
Basic earnings per share:		
Income from continuing operations	$ 0.32	**$ 0.02**
Income from discontinued operations	0.02	**0.01**
Net income	$ 0.34	**$ 0.03**
Diluted earnings per share:		
Income from continuing operations	$ 0.31	**$ 0.02**

Income from discontinued operations	0.02	**0.01**
Net income	$ 0.33	**$ 0.03**
Weighted average number of shares outstanding (000 s):		
Basic	61,475	**59,484**
Diluted	61,972	**60,474**
Dividends per share	$ 0.105	**$ 0.105**

See accompanying notes.

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COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2007 AND 2008
(UNAUDITED)
(Dollar amounts in thousands)

	2007	**2008**
Operating activities:		
Net income	$ 20,751	**$ 1,686**
Adjustments to reconcile net income to net cash provided by (used in) continuing operations:		
Income from discontinued operations, net of income taxes	(1,246)	**(344)**
Depreciation	31,352	**34,019**
Amortization	1,867	**1,358**
Deferred income taxes	755	**192**
Stock based compensation	1,031	**2,270**
Amortization of unrecognized postretirement benefits	4,606	**3,269**
Gain on sale of corporate aircraft	(4,165)	
Debt extinguishment costs		**583**
Noncontrolling shareholders income (expense)	399	**2,086**
Restructuring asset write-down	378	
Changes in operating assets and liabilities of continuing operations:		
Accounts receivable	(37,984)	**(16,987)**
Inventories	(16,867)	**(91,543)**
Other current assets	(4,408)	**(768)**
Accounts payable	23,396	**9,456**
Accrued liabilities	22,769	**(975)**
Other items	16,919	**8,108**
Net cash provided by (used in) continuing operations	59,553	**(47,590)**
Net cash used in discontinued operations	*(384)*	***(94)***
Net cash provided by (used in) operating activities	59,169	**(47,684)**
Investing activities:		
Property, plant and equipment	(42,754)	**(31,664)**
Proceeds from the sale of available-for-sale debt securities		**626**
Acquisition of business, net of cash acquired		**(5,956)**
Proceeds from the sale of assets	6,791	
Net cash used in continuing operations	(35,963)	**(36,994)**
Net cash used in discontinued operations	*(647)*	
Net cash used in investing activities	(36,610)	**(36,994)**
Financing activities:		
Issuance of debt	11,876	**37,486**
Payments on long-term debt		**(14,000)**

Premium paid on debt repurchases		**(543)**
Contributions of joint venture partner	8,500	**4,250**
Purchase of treasury shares		**(13,853)**
Payment of dividends	(6,474)	**(6,218)**
Issuance of common shares and excess tax benefits on options	4,329	**297**
Net cash provided by financing activities	18,231	**7,419**
Effects of exchange rate changes on cash of continuing operations	(2)	**(2,647)**
Changes in cash and cash equivalents	40,788	**(79,906)**
Cash and cash equivalents at beginning of year	221,655	**345,947**
Cash and cash equivalents at end of period	$ 262,443	**$ 266,041**
Cash and cash equivalents at end of period continuing operations	$ 262,386	**$ 266,041**
Cash and cash equivalents at end of period discontinued operations	57	
Cash and cash equivalents at end of period	$ 262,443	**$ 266,041**

See accompanying notes.

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

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. There is a year-round demand for the Company s passenger and truck replacement tires, but passenger replacement tires are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of August through November. Operating results for the three-month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

   The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

   For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

   Certain amounts for the prior year have been reclassified to conform to 2008 presentations.

2. On July 31, 2007, the Company announced it had signed a definitive agreement to sell Oliver Rubber Company, a subsidiary which produces tread rubber and retreading equipment, to Michelin North America, Inc. The sale was completed on October 5, 2007. The sale does not meet the thresholds for the disposition of a significant subsidiary, and, therefore, no pro forma financial information is presented.

   The operations of Oliver Rubber Company, previously included in the results of the North American Tire Operations segment, are considered to be discontinued operations as defined under Statement of Financial Accounting Standard (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and require specific accounting and reporting for this quarter which differs from the approach used to report the Company s results in prior quarters. The standard also requires restatement of comparable prior periods to conform to the required presentation.

   The Company s consolidated financial statements reflect the accounting and disclosure requirements of SFAS No. 144, which mandate the segregation of operating results for the current year and comparable prior year periods and the balance sheets related to the discontinued operations from those related to ongoing operations. Accordingly, the consolidated statements of income for the three-month periods ended March 31, 2007 and 2008 reflect this segregation as income from continuing operations and income from discontinued operations.

   In addition to the segregation of operating financial results, assets and liabilities, Emerging Issues Task Force (EITF) No. 87-24, Allocation of Interest to Discontinued Operations, mandates the reallocation to continuing operations of general corporate overhead previously allocated to discontinued operations. Corporate overhead that previously would have been allocated to these operations of $197 for the period ended March 31, 2007 is charged against continuing operations in the Company s consolidated statements of income.

   Operating results for the Oliver Rubber Company are included in income (loss) from discontinued operations, net of income taxes on the Company s consolidated statements of operations. Sales for this operation were $19,485 for the period ended March 31, 2007. For the period ended March 31, 2007, this operation generated a pretax profit of $1,288 and net income of $871.

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3. On January 1, 2008, the Company adopted the provisions of SFAS No. 157.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The Company accounts for certain financial assets and liabilities at fair value under various accounting literature.

In accordance with SFAS No. 157, 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 Consolidated Balance Sheet are categorized based on the inputs to the valuation techniques as follows:

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

Level 2. Financial assets and liabilities whose 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 assets and liabilities whose 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 following table presents the Company s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2008:

		Fair Value Measurements at March 31, 2008 Using		
Description	**March 31, 2008**	**Quoted Prices in Active Markets for Identical Assets Level (1)**	**Significant Other Observable Inputs Level (2)**	**Significant Unobservable Inputs Level (3)**

Assets:		
Available for sale securities	$ 49,139	$ 49,139
Liabilities:		
Accrued liabilities foreign currency (gain) loss on derivative financial instruments	$ 12,737	$ 12,737

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

	Three months ended March 31	
	2007	**2008**
Revenues from external customers:		
North American Tire	$ 515,089	**$ 497,672**
International Tire	182,961	**231,780**
Eliminations	(28,450)	**(50,131)**
Net sales	$ 669,600	**$ 679,321**
Segment profit:		
North American Tire	$ 26,797	**$ 8,144**
International Tire	6,114	**6,909**
Eliminations	(825)	**(1,269)**
Unallocated corporate charges	(2,957)	**(4,230)**
Operating profit	29,129	**9,554**
Interest expense	(12,519)	**(11,478)**
Interest income	3,529	**3,723**
Debt extinguishment		**(583)**
Dividend from unconsolidated subsidiary	2,007	**1,943**
Other net	4,606	**1,317**
Income from continuing operations before income taxes and noncontrolling shareholders interests	$ 26,752	**$ 4,476**

5. As of January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. The Company adopted SFAS No. 123 (R) using the modified prospective method of transition.

   Prior to the adoption of SFAS No. 123 (R), the Company presented all benefits of its tax deductions resulting from the exercise of share-based compensation as operating cash flows in its Statement of Cash Flows. SFAS No. 123(R) requires the benefits of tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. For the three months ended March 31, 2007 and 2008, the Company recognized $457 and $14 of excess tax benefits as financing cash flows, respectively.

   The Company recorded $51and $91 of stock compensation expense in the first quarter of 2007 and 2008, respectively, associated with stock option grants from prior years as there were no stock option grants made in the first quarter of 2007 or 2008.

   With the adoption of SFAS No. 123(R), the Company has recognized compensation expense associated with restricted stock units granted subsequent to January 1, 2006 based on the earlier of the vesting date or the date when the employee becomes eligible to retire. The Company recognized $604 in 2007 and $615 in 2008 in compensation expense associated with restricted stock units and stock awards.

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The following table provides details of the restricted stock unit activity for the three months ended March 31, 2008:

Restricted stock units outstanding at January 1, 2008	401,681
Restricted stock units granted	
Accrued dividend equivalents	2,741
Restricted stock units settled	(21,896)
Restricted stock units cancelled	(152)
Restricted stock units outstanding at March 31, 2008	382,374

The Company recorded compensation expense associated with performance based units of $376 and $1,564 in the first quarter of 2007 and 2008, respectively. Executives participating in the Company s Long-Term Incentive Plan earn performance based units based on the Company s financial performance. As part of the 2007 2009 plan, the units earned in 2007 and 2008 will vest in February 2010. As part of the 2008 2010 plan, the units earned in 2008 will vest in February 2011.

6. The following table discloses the amount of net periodic benefit costs for the three months ended March 31, 2007 and 2008 for the Company s defined benefit plans and other postretirement benefits relating to continuing operations:

	Pension Benefits		Other Postretirement Benefits	
	2007	**2008**	2007	**2008**
Components of net periodic benefit cost:				
Service cost	$ 5,475	**$ 5,524**	$ 1,393	**$ 1,244**
Interest cost	15,406	**16,269**	3,919	**3,873**
Expected return on plan assets	(19,229)	**(20,508)**		**-**
Amortization of prior service cost	177	**126**	(77)	**(77)**
Recognized actuarial loss	3,797	**2,921**	709	**299**
Net periodic benefit cost	$ 5,626	**$ 4,332**	$ 5,943	**$ 5,339**

7. On an annual basis, disclosure of comprehensive income is incorporated into the Statement of Shareholders Equity. This statement is not presented on a quarterly basis. Comprehensive income includes net income and components of other comprehensive income, such as foreign currency translation adjustments, unrealized gains or losses on certain marketable securities and derivative instruments and unrecognized postretirement benefits plans.

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The Company s comprehensive income is as follows:

	Three months ended March 31	
	2007	**2008**
Income from continuing operations	$ 19,505	**$ 1,342**
Other comprehensive income:		
Currency translation adjustments	1,352	**10,936**
Unrealized net gains (losses) on derivative instruments and marketable securities	(431)	**(5,351)**
Unrecognized postretirement benefit plans	4,317	**2,989**
Comprehensive income from continuing operations	$ 24,743	**$ 9,916**

8. During 2007, the Company recorded restructuring expenses associated with four initiatives.

   In September of 2006, the North American Tire Operations segment announced its plans to reconfigure its tire manufacturing facility in Texarkana, Arkansas so that its production levels can flex to meet tire demand. This initiative was completed during the third quarter of 2007. During the first quarter of 2007, the Company recorded equipment relocation costs of $479 associated with this initiative.

   In November of 2006, a restructuring of salaried support positions was announced. During the first quarter of 2007, the Company recorded $444 of severance benefits and made payments for outplacement services of $6 for a total of $450 of restructuring expense associated with this initiative.

   In December of 2006, the North American Tire Operations segment initiated a plan to reduce the number of stock-keeping units manufactured in its facilities and to take tire molds out of service. During the first quarter of 2007, $80 of accelerated depreciation was recorded.

   In March of 2007, the International Tire Operations segment closed a small warehouse in the United Kingdom and incurred $38 of restructuring expense.

9. 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 for 2007 and 2008:

	2007	**2008**
Reserve at January 1	$ 15,967	