COOPER TIRE & RUBBER CO
Form 10-Q
April 30, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

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

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

Number of shares of common stock of registrant outstanding as of April 26, 2018: 50,553,505

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 March 31, 2018	2017
Net sales	$601,496	$643,025
Cost of products sold	517,011	524,439
Gross profit	84,485	118,586
Selling, general and administrative expense	58,031	60,591
Operating profit	26,454	57,995
Interest expense	(7,691)	(7,827)
Interest income	2,315	1,802
Other pension and postretirement benefit expense	(6,986)	(9,325)
Other non-operating expense	(1,658)	(235)
Income before income taxes	12,434	42,410
Provision for income taxes	3,451	13,029
Net income	8,983	29,381
Net income (loss) attributable to noncontrolling shareholders' interests	698	(1,180)
Net income attributable to Cooper Tire & Rubber Company	$8,285	$30,561
Earnings per share:		
Basic	$0.16	$0.58
Diluted	$0.16	$0.57
Cash dividends declared per share	$0.105	$0.105

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Net income	$8,983	$29,381
Other comprehensive income (loss):		
Foreign currency translation adjustments	24,870	15,388
Financial instruments:		
Change in the fair value of derivatives	2,139	(399)
Income tax (provision) benefit on derivative instruments	(588)	153
Financial instruments, net of tax	1,551	(246)
Postretirement benefit plans:		
Amortization of actuarial loss	9,345	10,591
Amortization of prior service credit	(135)	(141)
Income tax provision on postretirement benefit plans	(2,210)	(3,719)
Foreign currency translation effect	(2,900)	(865)
Postretirement benefit plans, net of tax	4,100	5,866
Other comprehensive income	30,521	21,008
Comprehensive income	39,504	50,389
Less: comprehensive income attributable to noncontrolling shareholders' interests	4,643	1,691
Comprehensive income attributable to Cooper Tire & Rubber Company	$34,861	$48,698

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$213,091	$ 371,684
Notes receivable	66,073	13,753
Accounts receivable, less allowances of $7,840 at 2018 and $7,570 at 2017	499,130	528,250
Inventories:		
Finished goods	448,019	365,672
Work in process	34,878	31,000
Raw materials and supplies	128,627	115,085
	611,524	511,757
Other current assets	63,921	63,063
Total current assets	1,453,739	1,488,507
Property, plant and equipment:		
Land and land improvements	54,182	52,683
Buildings	312,835	311,199
Machinery and equipment	1,932,543	1,890,210
Molds, cores and rings	232,649	220,528
	2,532,209	2,474,620
Less: accumulated depreciation	1,553,715	1,507,873
Property, plant and equipment, net	978,494	966,747
Goodwill	56,056	54,613
Intangibles, net of accumulated amortization of $98,005 at 2018 and $93,353 at 2017	126,143	133,256
Deferred income tax assets	57,057	58,665
Other assets	7,493	6,137
Total assets	$2,678,982	$ 2,707,925
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	$41,043	$ 39,450
Accounts payable	268,556	277,060
Accrued liabilities	244,371	280,666
Income taxes payable	5,098	6,954
Current portion of long-term debt	1,446	1,413
Total current liabilities	560,514	605,543
Long-term debt	295,221	295,987
Postretirement benefits other than pensions	256,188	256,888
Pension benefits	218,280	219,534
Other long-term liabilities	144,753	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	87,850	87,850
Capital in excess of par value	18,278	20,740

Retained earnings	2,397,224	2,394,372
Accumulated other comprehensive loss	(451,902)	(478,478)
	2,051,450	2,024,484
Less: common shares in treasury at cost (37,244,438 at 2018 and 36,908,553 at 2017)	(910,727)	(897,388)
Total parent stockholders’ equity	1,140,723	1,127,096
Noncontrolling shareholders' interests in consolidated subsidiaries	63,303	58,660
Total equity	1,204,026	1,185,756
Total liabilities and equity	$2,678,982	$2,707,925

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2018	2017
Operating activities:		
Net income	$8,983	$29,381
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	36,424	34,749
Stock-based compensation	1,280	1,283
Change in LIFO inventory reserve	(9,900)	14,438
Amortization of unrecognized postretirement benefits	9,210	10,450
Changes in operating assets and liabilities:		
Accounts and notes receivable	(14,955)	17,546
Inventories	(81,156)	(104,851)
Other current assets	(5,532)	(2,069)
Accounts payable	13,063	(6,342)
Accrued liabilities	(34,778)	(44,570)
Other items	58	(17,989)
Net cash used in operating activities	(77,303)	(67,974)
Investing activities:		
Additions to property, plant and equipment and capitalized software	(59,722)	(44,602)
Proceeds from the sale of assets	133	11
Net cash used in investing activities	(59,589)	(44,591)
Financing activities:		
Net payments on short-term debt	(5,356)	(16,608)
Repayments of long-term debt	(809)	(792)
Payment of financing fees	(1,230)	—
Repurchase of common stock	(15,565)	(17,799)
Payments of employee taxes withheld from shared-based awards	(1,891)	(6,429)
Payment of dividends to Cooper Tire & Rubber Company stockholders	(5,334)	(5,543)
Issuance of common shares related to stock-based compensation	270	3,596
Net cash used in financing activities	(29,915)	(43,575)
Effects of exchange rate changes on cash	1,399	2,720
Net change in cash, cash equivalents and restricted cash	(165,408)	(153,420)
Cash, cash equivalents and restricted cash at beginning of year	392,306	524,249
Cash, cash equivalents and restricted cash at end of period	$226,898	$370,829

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

Note 1. Basis of Presentation and Consolidation

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

There is a year-round demand for the Company’s tires, but sales of light vehicle replacement tires are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of June through November. Operating results for the three month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ended December 31, 2018.

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

Truck and Bus Tire Tariffs

Antidumping and countervailing duty investigations into certain truck and bus tires imported from the People's Republic of China ("PRC") into the United States were initiated on January 29, 2016. The preliminary determinations announced in both investigations were affirmative and resulted in the imposition of significant additional duties from each. The Company incurred expense of $22,042 over the final seven months of the year ended December 31, 2016 related to these additional duties. On February 22, 2017, the United States ("U.S.") International Trade Commission determined the U.S. market had not suffered material injury because of imports of truck and bus tires from China. As a result of this decision, preliminary antidumping and countervailing duties from Chinese truck and bus tires imported subsequent to the preliminary determination were not to be collected and any amounts previously paid have been refunded by U.S. Customs and Border Protection. Further, prospective imports of truck and bus tires from the PRC are not subject to these additional duties. In the first quarter of 2017, the Company reversed the previously expensed preliminary duties of $22,042 due to the decision by the U.S. International Trade Commission. This amount was recorded as a reduction of Cost of products sold in the Condensed Consolidated Statement of Income for the three month period ended March 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, covers the repair or replacement of the Company's assets that suffered loss or damage, and the Company is working closely with its insurance carriers and claims adjusters to ascertain the full amount of insurance proceeds due to the Company as a result of the damages and the loss the Company suffered. The Company's insurance policies also provide coverage for interruption to its business, including lost profits, and reimbursement for other expenses and costs that have been incurred relating to the damages and losses suffered. In the first quarter of 2017, the Company incurred expenses of $6,806 related to damages caused by the tornado, including the disposal of damaged tires, freight to move product to other warehouses, professional fees to secure and maintain the site and for the rental of additional storage facilities. For the full year 2017, the Company incurred direct expenses of $12,569, less proceeds of $7,000 recovered from insurance. In the first quarter of 2018, the Company recorded insurance recoveries of $3,809, while incurring direct costs of $870. These amounts were recorded as a component of Cost of products sold in the Condensed Consolidated Statements of Income for the three month periods ended March 31, 2018 and 2017 and the year ended December 31, 2017. At this time, the full amount of insurance recoveries cannot be estimated, and accordingly, no additional amounts have been recorded as of March 31, 2018.

Accounting Pronouncements

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

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

Accounting Pronouncements – Recently Adopted

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 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 8 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. Therefore, 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 Condensed Consolidated Balance Sheets to the total of the same such amounts reported within the Condensed Consolidated Statements of Cash Flows:

	March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited)	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 213,091	$ 365,046	$ 371,684	$ 504,423
Restricted cash included in Other current assets	11,683	4,715	19,200	18,499
Restricted cash included in Other assets	2,124	1,068	1,422	1,327
Total cash, cash equivalents and restricted cash	$ 226,898	$ 370,829	$ 392,306	$ 524,249

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.

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. 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 FASB issued multiple amendments to the standard which provided clarification, additional guidance, practical expedients and other improvements to ASU 2016-02. The Company is currently evaluating the impact of the new standard, including optional practical expedients, and assessing its existing lease portfolio in order to assess the impact on its condensed consolidated financial statements.

Goodwill

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

Derivatives and Hedging

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

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 is currently evaluating the impact the new standard will have on its condensed consolidated financial statements and has not yet determined whether it will make the election to reclassify its stranded tax effects.

Note 2. Revenue from Contracts with Customers

Accounting policy

On January 1, 2018, the Company adopted the new revenue standard using the modified retrospective 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 recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or 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.

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 racing, motorcycle and truck and bus radial ("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.

See Note 15 - Business Segments for additional details.

Disaggregation of revenue

In the following table, revenue is disaggregated by major market channel for the three month period ended March 31, 2018:

	Americas	International	Eliminations	Total
Light vehicle[1]	$433,384	$ 121,341	$ (24,950)	$529,775
Truck and bus radial	41,461	26,589	(20,190)	47,860
Other[2]	10,547	13,314	—	23,861
Net sales	$485,392	$ 161,244	$ (45,140)	$601,496

(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

The following table provides information about contract liabilities from contracts with customers.

	March 31, 2018	December 31, 2017
Contract liabilities	$ 1,609	$ 1,111

The 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 period are as follows:

	Deferred revenue
Deferred revenue at beginning of year	$ 1,111
Increases due to cash received from customers	3,111
Decreases due to recognition of revenue	(2,613)
Deferred revenue at March 31, 2018	$ 1,609

Transaction price allocated to remaining performance obligations

For the three month period ended March 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 606-10-50-14 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 "Revenue from Contracts with Customers" 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 Condensed 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 Condensed 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 Qingdao Ge Rui Da Rubber Co., Ltd. ("GRT"). In the first quarter of 2016, the Company made a down payment in the amount of $5,929 for this transaction in accordance with the purchase agreement. The down payment was fully refundable in the event that the transaction did not close and did not provide the Company with any power to direct the activities of the existing GRT entity prior to the transaction closing. After the transaction closed on December 1, 2016, the Company owned 65 percent of GRT. Based on the Company's ownership percentage and corresponding control of voting rights, the results of GRT and 100 percent of its assets and liabilities are consolidated from the date of the closing. GRT serves as a global source of truck and bus radial tire production for the Company. Passenger car radial tires may also be manufactured at the facility in the future.

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

The GRT acquisition has been accounted for as a purchase transaction. The total consideration has been allocated to the assets acquired, liabilities assumed and noncontrolling shareholder interest based on their estimated fair values at December 1, 2016. The excess purchase price over the estimated fair value of the net assets acquired has been allocated to goodwill. Goodwill consists of anticipated growth opportunities for GRT and is recorded in the Asia Operations segment, which is included in the International Tire 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 6. 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 non-controlling shareholder interest. The valuation of property, plant and equipment was developed using primarily the cost approach. The fair value of the non-controlling shareholder interest was determined based upon internal and external inputs considering various relevant market transactions and discounted cash flow valuation methods, among other factors.

Note 4. 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 March 31,	
	2018	2017
Numerator		
Numerator for basic and diluted earnings per share - Net income attributable to common stockholders	$8,285	$30,561
Denominator		
Denominator for basic earnings per share - weighted average shares outstanding	50,838	52,835
Effect of dilutive securities - stock options and other stock units	341	587
Denominator for diluted earnings per share - adjusted weighted average shares outstanding	51,179	53,422
Earnings per share:		
Basic	$0.16	$0.58
Diluted	$0.16	$0.57

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 March 31, 2018 and 2017.

Note 5. 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 $485,842 and $415,640 at March 31, 2018 and December 31, 2017, respectively. These FIFO values have been reduced by approximately $78,194 and $88,094 at March 31, 2018 and December 31, 2017, respectively, to arrive at the LIFO value reported on the Condensed Consolidated Balance Sheets. The remaining inventories have been valued under the FIFO method. All LIFO inventories are stated at the lower of cost or market. All other inventories are stated at the lower of cost or net realizable value.

Note 6. 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 non-designated and cash flow hedges of foreign currency exposures. The change in values of the non-designated foreign currency hedges offset the exchange rate fluctuations related to assets and liabilities recorded on the consolidated balance sheets. The cash flow hedges offset exchange rate fluctuations on the foreign currency-denominated intercompany loans and forecasted cash flows. The Company presently hedges exposures in the Euro, Canadian dollar, British pound sterling, Swiss franc, Swedish krona, Norwegian krone, Mexican peso, Chinese yuan and Serbian dinar generally for transactions expected to occur within the next 12 months. Additionally, the Company utilizes cash flow hedges that hedge already recognized intercompany loans with maturities of up to four years. The notional amount of these foreign currency derivative instruments at March 31, 2018 and December 31, 2017 was $194,889 and $134,530, 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 $(1,431) and $(2,640) as of March 31, 2018 and December 31, 2017, 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 utilizes cross-currency interest rate swaps to hedge the principal and interest repayment of some intercompany loans. These contracts have maturities of up to four years and meet the criteria for and have been designated as cash flow hedges. Spot to spot changes are recorded in income and all other effective changes are recorded as a separate component of stockholders' equity.

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

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

	March 31, 2018	December 31, 2017
Assets/(liabilities)		
Designated as hedging instruments:		
Gross amounts recognized	$(2,733)	$(2,808)
Gross amounts offset	1,302	168
Net amounts	$(1,431)	$(2,640)
Not designated as hedging instruments:		
Gross amounts recognized	(577)	(684)
Gross amounts offset	149	97
Net amounts	$(428)	$(587)
Net amounts presented:		
Other current assets (accrued liabilities)	$675	$(1,893)
Other long-term liabilities	$(2,534)	$(1,334)

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

Derivatives Designated as Cash Flow Hedges	Three Months Ended March 31, 2018	2017
Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion)	$646	$(389)
Amount of (Loss) Gain Reclassified from Cumulative Other Comprehensive Loss into Income (Effective Portion)	(1,493)	10

Derivatives not Designated as Hedging Instruments	Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives Three Months Ended March 31, 2018	2017
Foreign exchange contracts	Other non-operating expense	$ (2,281)	$ (646)

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

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 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 valuation of foreign currency derivative instruments was determined using widely accepted valuation techniques. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs, including forward points. The Company incorporated credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. Although the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as current credit ratings, to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2018 and December 31, 2017, 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 to be 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 the 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 as of March 31, 2018 and December 31, 2017:

	March 31, 2018			
	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 Currency Derivative Instruments	$(1,859)	$ —	$ (1,859)	$ —
Stock-based Liabilities	$(14,602)	$ (14,602)	$ —	$ —

	December 31, 2017			
	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 Currency Derivative Instruments	$(3,227)	$ —	$ (3,227)	$ —
Stock-based Liabilities	$(16,713)	$ (16,713)	$ —	$ —

The fair market value of Cash and cash equivalents, Notes receivable, Restricted cash included in Other current assets, Restricted cash included in Other assets, Notes payable and Current portion of long-term debt at March 31, 2018 and December 31, 2017 are equal to their corresponding carrying values as reported on the Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017, 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 $324,142 and $329,329 at March 31, 2018 and December 31, 2017, respectively, and is classified within Level 1 of the fair value hierarchy. The carrying value of Long-term debt is $295,221 and $295,987 as reported on the Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017, respectively.

Note 7. Income Taxes

For the three month period ended March 31, 2018, the Company recorded a provision for income taxes of $3,451 (effective rate of 27.8 percent) compared with $13,029 (effective rate of 30.7 percent) for the comparable period in 2017. The 2018 three month period provision for income taxes is calculated using forecasted multi-jurisdictional annual effective tax rates to determine a blended annual effective tax rate. The effective tax rate for the three month period ended March 31, 2018 differs from the U.S. federal statutory rate of 21 percent primarily due to additional liability for unrecognized tax benefits recorded during the quarter, the projected mix of earnings in international jurisdictions with differing tax rates, and jurisdictions where valuation allowances are recorded.
At December 31, 2017, as a result of the U.S. Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017 and in conjunction with guidance set forth under SAB 118, the Company recorded provisional amounts both for the impact of remeasurement on its U.S. deferred tax assets to the new U.S. statutory rate of 21% and for the mandatory Transition Tax on unrepatriated foreign earnings. At March 31, 2018, the Company has not yet completed its accounting for the tax effect of these elements of the Tax Act and as such, adjustments to these provisional amounts have not been made.

The Tax Act also subjects a U.S. parent shareholder to current tax on its global intangible low-taxed income ("GILTI"). At December 31, 2017, a provisional estimate under SAB 118 could not be made and the Company had not yet elected an accounting policy to either recognize deferred taxes for basis differences expected to reverse as GILTI or to record GILTI as a period cost when incurred. Due to the complexity of the GILTI provisions, the Company continues to evaluate the impact of GILTI and has not yet determined its accounting policy; however, at March 31, 2018, a reasonable estimate of GILTI related to current year operations has been made and included in the annual effective tax rate as a period cost. The Company did not record additional GILTI related to basis differences.

The Company continues to maintain a valuation allowance pursuant to ASC 740, “Accounting for Income Taxes,” against portions of its U.S. and non-U.S. deferred tax assets at March 31, 2018, as it cannot assure the future realization of the associated tax benefits prior to their reversal or expiration. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a loss carryforward by a valuation allowance of $1,413. In addition, the Company has recorded valuation allowances of $30,007 relating to non-U.S. net operating losses and other deferred tax assets for a total valuation allowance of $31,420. In conjunction with the Company’s ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when the associated deferred tax assets are deemed to be realizable.

The Company maintains an ASC 740-10, “Accounting for Uncertainty in Income Taxes,” liability for unrecognized tax benefits for permanent and temporary differences. At March 31, 2018, the Company’s liability, exclusive of penalty and interest, totals approximately $2,787. The Company accrued additional unrecognized tax benefits, including penalty and interest, during the quarter ended March 31, 2018. Based upon the outcome of tax examinations, judicial proceedings, or expiration of statutes of limitations, it is possible that the ultimate resolution of the Company's unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities.

The Company and its subsidiaries are subject to income tax examination in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company has effectively settled U.S. federal tax examinations for years before 2014 and state and local examinations for years before 2013, with limited exceptions. Non-U.S. subsidiaries of the Company are no longer subject to income tax examinations in major foreign taxing jurisdictions for years prior to 2007. 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.

Note 8. Pensions and Postretirement Benefits Other than Pensions

The following tables disclose the amount of net periodic benefit costs for the three months ended March 31, 2018 and 2017 for the Company’s defined benefit plans and other postretirement benefits:

	Pension Benefits - Domestic Three Months Ended March 31,	
	2018	2017
Components of net periodic benefit cost:		
Service cost	$2,580	$2,465
Interest cost	9,210	9,813
Expected return on plan assets	(13,498)	(13,515)
Amortization of actuarial loss	8,235	9,281
Net periodic benefit cost	$6,527	$8,044

	Pension Benefits - International Three Months Ended March 31,	
	2018	2017
Components of net periodic benefit cost:		
Service cost	$—	$—
Interest cost	2,906	2,770
Expected return on plan assets	(3,155)	(2,707)

Amortization of actuarial loss	1,110	1,310
Net periodic benefit cost	$861	$1,373

	Other Postretirement Benefits Three Months Ended March 31,	
	2018	2017
Components of net periodic benefit cost:		
Service cost	$487	$501
Interest cost	2,313	2,515
Amortization of prior service credit	(135)	(141)
Net periodic benefit cost	$2,665	$2,875

As discussed in Note 1, the Company retrospectively applied the adoption of ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" in the first quarter of 2018. The effect of the retrospective presentation change related to the net periodic cost of the Company's defined benefit plans and other postretirement benefits on the Company's Condensed Consolidated Statement of Income for the three month period ended March 31, 2017 was as follows:

		Effect of change			
	As Adjusted	Americas	International	Corporate	Previously Reported
Cost of products sold	$524,439	$7,295	$ 1,373	$ —	$533,107
Selling, general and administrative expense	60,591	296	—	361	61,248
Other pension and postretirement benefit expense	(9,325)	(7,591)	(1,373)	(361)	—

Note 9. 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:

	2018	2017
Reserve at beginning of year	$12,093	$10,634
Additions	3,844	2,324
Payments	(2,743)	(2,030)
Reserve at March 31	$13,194	$10,928

Note 10. Stockholders' Equity

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

	Total Equity		
	Total Parent Stockholders' Equity	Noncontrolling Shareholders' Interests in Consolidated Subsidiary	Total Stockholders' Equity
Balance at December 31, 2017	$1,127,096	$ 58,660	$1,185,756
Net income	8,285	698	8,983
Other comprehensive income	26,576	3,945	30,521
Share repurchase program	(15,565)	—	(15,565)
Stock compensation plans	(335)	—	(335)
Cash dividends - $0.105 per share	(5,334)	—	(5,334)
Dividend paid to noncontrolling shareholder	—	—	—

Balance at March 31, 2018	$1,140,723	$ 63,303	$1,204,026

Note 11. Share Repurchase Programs

Share repurchase programs require the approval of the Company's Board of Directors. The following table summarizes the Company’s Board authorized share repurchase programs and related information for the three months ended March 31, 2018 and for the full year 2017:

Program[1]	Date Authorized by Board of Directors	Expiration Date	Amount Authorized (excluding commissions)	Amount Spent as of March 31, 2018 (excluding commissions)	Status
2017 Repurchase Program	February 16, 2017	December 31, 2019	$ 300,000	$ 92,275	Active
2016 Repurchase Program	February 19, 2016	December 31, 2017	200,000	104,366	Superseded[2]

(1)