

COOPER TIRE & RUBBER CO

Form 10-Q

August 06, 2007

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**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 June 30, 2007

**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  
(State or other jurisdiction of  
incorporation or organization)

34-4297750  
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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  
at June 30, 2007: 62,433,741

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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,<br>2006<br>(Note 1) | June 30<br>2007<br>(Unaudited) |
|---|----------------------------------|--------------------------------|
| <b>ASSETS</b>   |                                  |                                |
| Current assets:   |                                  |                                |
| Cash and cash equivalents   | \$ 221,655                       | \$ 281,139                     |
| Short-term investments  |                                  | 50,314                         |
| Accounts receivable, less allowances of \$8,880 in 2006 and \$8,841 in 2007           | 414,096                          | 428,244                        |
| Inventories at lower of cost or market:   |                                  |                                |
| Finished goods  | 240,100                          | 226,349                        |
| Work in process   | 28,458                           | 32,671                         |
| Raw materials and supplies  | 83,129                           | 90,853                         |
|   | 351,687                          | 349,873                        |
| Other current assets  | 21,686                           | 128,204                        |
| Total current assets  | 1,009,124                        | 1,237,774                      |
| Property, plant and equipment:  |                                  |                                |
| Land and land improvements  | 37,326                           | 37,892                         |
| Buildings   | 298,706                          | 300,121                        |
| Machinery and equipment   | 1,636,091                        | 1,690,276                      |
| Molds, cores and rings  | 268,158                          | 273,232                        |
|   | 2,240,281                        | 2,301,521                      |
| Less accumulated depreciation and amortization  | 1,252,692                        | 1,298,924                      |
| Net property, plant and equipment   | 987,589                          | 1,002,597                      |
| Goodwill  | 24,439                           | 24,439                         |
| Intangibles, net of accumulated amortization of \$22,446 in 2006 and \$25,914 in 2007 | 37,399                           | 34,568                         |
| Restricted cash   | 7,550                            | 7,690                          |
| Other assets  | 169,178                          | 62,788                         |
|   | \$ 2,235,279                     | \$ 2,369,856                   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                  |                                |
| Current liabilities:  |                                  |                                |
| Notes payable   | \$ 144,803                       | \$ 126,811                     |
| Payable to non-controlling owner  | 19,527                           | 19,077                         |
| Accounts payable  | 238,181                          | 253,225                        |
| Accrued liabilities   | 117,005                          | 157,650                        |

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|   |                     |                     |
|---|---------------------|---------------------|
| Income taxes  | 4,698               |                     |
| Liabilities related to the sale of automotive operations  | 3,038               | <b>972</b>          |
| <b>Total current liabilities</b>  | <b>527,252</b>      | <b>557,735</b>      |
| Long-term debt  | 513,213             | <b>543,147</b>      |
| Postretirement benefits other than pensions   | 258,579             | <b>263,748</b>      |
| Other long-term liabilities   | 217,743             | <b>222,073</b>      |
| Long-term liabilities related to the sale of automotive operations  | 8,913               | <b>9,345</b>        |
| Deferred income taxes   |                     |                     |
| Minority interests  | 69,688              | <b>78,264</b>       |
| 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 2006 and 86,322,514 in 2007 | 86,323              | <b>86,323</b>       |
| Capital in excess of par value  | 38,144              | <b>38,104</b>       |
| Retained earnings   | 1,256,971           | <b>1,282,328</b>    |
| Cumulative other comprehensive loss   | (282,552)           | <b>(273,475)</b>    |
|   | 1,098,886           | <b>1,133,280</b>    |
| Less: 24,943,265 common shares in treasury in 2006 and 23,888,773 in 2007, at cost                                  | (458,995)           | <b>(437,736)</b>    |
| <b>Total stockholders' equity</b>   | <b>639,891</b>      | <b>695,544</b>      |
|   | <b>\$ 2,235,279</b> | <b>\$ 2,369,856</b> |

See accompanying notes.

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COOPER TIRE & RUBBER COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 THREE MONTHS ENDED JUNE 30, 2006 AND 2007  
 (UNAUDITED)  
 (Dollar amounts in thousands except per-share amounts)

|  | 2006        | 2007              |
|--|-------------|-------------------|
| Net sales  | \$ 624,785  | <b>\$ 750,641</b> |
| Cost of products sold  | 595,593     | <b>671,527</b>    |
| Gross profit   | 29,192      | <b>79,114</b>     |
| Selling, general and administrative                                | 46,872      | <b>45,352</b>     |
| Restructuring  | 8,212       | <b>1,682</b>      |
| Operating profit (loss)  | (25,892)    | <b>32,080</b>     |
| Interest expense   | (11,584)    | <b>(12,157)</b>   |
| Interest income  | 2,097       | <b>4,259</b>      |
| Dividend from unconsolidated subsidiary                            | (323)       |                   |
| Other net  | (163)       | <b>1,847</b>      |
| Income (loss) from continuing operations before income taxes       | (35,865)    | <b>26,029</b>     |
| Income tax benefit (expense)                                       | 16,100      | <b>(5,550)</b>    |
| Income (loss) from continuing operations before minority interests | (19,765)    | <b>20,479</b>     |
| Minority interests   | (3,157)     | <b>(2,928)</b>    |
| Income (loss) from continuing operations                           | (22,922)    | <b>17,551</b>     |
| Income (loss) from discontinued operations, net of income taxes    | 2,190       | <b>62</b>         |
| Net income (loss)  | \$ (20,732) | <b>\$ 17,613</b>  |
| Basic earnings (loss) per share:                                   |             |                   |
| Income (loss) from continuing operations                           | \$ (0.37)   | <b>\$ 0.28</b>    |
| Income (loss) from discontinued operations                         | 0.04        |                   |
| Net income (loss)  | \$ (0.34)*  | <b>\$ 0.28</b>    |

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|  |            |                 |
|--|------------|-----------------|
| Diluted earnings (loss) per share:                     |            |                 |
| Income (loss) from continuing operations               | \$ (0.37)  | \$ <b>0.28</b>  |
| Income (loss) from discontinued operations             | 0.04       |                 |
| Net income (loss)                                      | \$ (0.34)* | \$ <b>0.28</b>  |
| Weighted average number of shares outstanding (000 s): |            |                 |
| Basic  | 61,337     | <b>61,980</b>   |
| Diluted  | 61,337     | <b>62,913</b>   |
| Dividends per share                                    | \$ 0.105   | \$ <b>0.105</b> |

\* Amounts do not  
add due to  
rounding  
See accompanying notes.

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COOPER TIRE & RUBBER COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
SIX MONTHS ENDED JUNE 30, 2006 AND 2007  
(UNAUDITED)  
(Dollar amounts in thousands except per-share amounts)

|  | 2006         | 2007                |
|--|--------------|---------------------|
| Net sales  | \$ 1,221,367 | <b>\$ 1,439,726</b> |
| Cost of products sold  | 1,148,570    | <b>1,287,068</b>    |
| <br>   |              |                     |
| Gross profit   | 72,797       | <b>152,658</b>      |
| Selling, general and administrative                                | 94,816       | <b>87,305</b>       |
| Restructuring  | 8,212        | <b>2,856</b>        |
| <br>   |              |                     |
| Operating profit (loss)  | (30,231)     | <b>62,497</b>       |
| Interest expense   | (22,397)     | <b>(24,676)</b>     |
| Interest income  | 5,068        | <b>7,788</b>        |
| Debt extinguishment  | 77           |                     |
| Dividend from unconsolidated subsidiary                            | 4,286        | <b>2,007</b>        |
| Other net  | (130)        | <b>6,453</b>        |
| <br>   |              |                     |
| Income (loss) from continuing operations before income taxes       | (43,327)     | <b>54,069</b>       |
| Income tax benefit (expense)                                       | 18,407       | <b>(12,815)</b>     |
| <br>   |              |                     |
| Income (loss) from continuing operations before minority interests | (24,920)     | <b>41,254</b>       |
| Minority interests   | (3,470)      | <b>(3,327)</b>      |
| <br>   |              |                     |
| Income (loss) from continuing operations                           | (28,390)     | <b>37,927</b>       |
| Income from discontinued operations, net of income taxes           | 2,504        | <b>437</b>          |
| <br>   |              |                     |
| Net income (loss)  | \$ (25,886)  | <b>\$ 38,364</b>    |
| <br>   |              |                     |
| Basic earnings (loss) per share:                                   |              |                     |
| Income (loss) from continuing operations                           | \$ (0.46)    | <b>\$ 0.61</b>      |
| Income from discontinued operations                                | 0.04         | <b>0.01</b>         |
| <br>   |              |                     |
| Net income (loss)  | \$ (0.42)    | <b>\$ 0.62</b>      |



|  |           |                 |
|--|-----------|-----------------|
| Diluted earnings (loss) per share:                     |           |                 |
| Income (loss) from continuing operations               | \$ (0.46) | \$ <b>0.61</b>  |
| Income from discontinued operations                    | 0.04      | <b>0.01</b>     |
| Net income (loss)                                      | \$ (0.42) | \$ <b>0.61*</b> |
| Weighted average number of shares outstanding (000 s): |           |                 |
| Basic  | 61,334    | <b>61,729</b>   |
| Diluted  | 61,334    | <b>62,445</b>   |
| Dividends per share                                    | \$ 0.210  | \$ <b>0.210</b> |

\* Amounts do not  
add due to  
rounding  
See accompanying notes.

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COOPER TIRE & RUBBER COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED JUNE 30, 2006 AND 2007  
(UNAUDITED)  
(Dollar amounts in thousands)

|   | 2006           | 2007           |
|---|----------------|----------------|
| Operating activities:   |                |                |
| Net income (loss)   | \$ (25,886)    | \$ 38,364      |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operations: |                |                |
| Income from discontinued operations, net of income taxes  | (2,504)        | (437)          |
| Depreciation  | 64,134         | 66,570         |
| Amortization  | 2,659          | 3,568          |
| Deferred income taxes   | 357            | 1,739          |
| Stock based compensation  | 747            | 1,738          |
| Loss (gain) on sale of assets   | 1,188          | (4,935)        |
| Restructuring asset write-down  | 6,445          | 197            |
| Noncontrolling shareholders' income (expense)   | 3,470          | 3,327          |
| Changes in operating assets and liabilities of continuing operations:                               |                |                |
| Accounts receivable   | (88,901)       | (14,335)       |
| Inventories   | (121,074)      | 5,178          |
| Prepaid expenses  | (6,871)        | 3,102          |
| Accounts payable  | 19,031         | 11,820         |
| Accrued liabilities   | 40,065         | 35,650         |
| Other items   | (17,863)       | 7,510          |
| Net cash provided by (used in) continuing operations  | (125,003)      | 159,056        |
| <i>Net cash provided by (used in) discontinued operations</i>                                       | <i>(4,361)</i> | <i>(1,305)</i> |
| Net cash provided by (used in) operating activities   | (129,364)      | 157,751        |
| Investing activities:   |                |                |
| Property, plant and equipment   | (76,594)       | (78,760)       |
| Investments in available-for-sale debt securities   |                | (50,314)       |
| Acquisition of business, net of cash acquired   | (40,243)       |                |
| Proceeds from the sale of assets  | 517            | 9,129          |
| Net cash used in investing activities   | (116,320)      | (119,945)      |
| Financing activities:   |                |                |
| Issuance of (payments on) debt  | 76,555         | 8,624          |
| Payments on long-term debt  | (4,000)        |                |
| Contributions of joint venture partner  | 13,024         | 8,500          |
| Payment of dividends  | (12,880)       | (13,000)       |
| Issuance of common shares and excess tax benefits on options  | 122            | 19,474         |
| Net cash provided by financing activities   | 72,821         | 23,598         |

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|   |            |                   |
|---|------------|-------------------|
| Effects of exchange rate changes on cash of continuing operations | (2,648)    | <b>(1,920)</b>    |
| Changes in cash and cash equivalents                              | (175,511)  | <b>59,484</b>     |
| Cash and cash equivalents at beginning of year                    | 280,712    | <b>221,655</b>    |
| Cash and cash equivalents at end of period                        | \$ 105,201 | <b>\$ 281,139</b> |

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 and six-month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

The balance sheet at December 31, 2006 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, 2006.

Certain amounts for the prior year have been reclassified to conform to 2007 presentations. Included in the Payable to non-controlling owner at December 31, 2006 was a \$32 million bank loan which has now been paid through the issuance of short-term notes. The December 31, 2006 Notes payable amount has been increased by \$32 million and the Payable to non-controlling owner has been reduced to reflect this bank loan. At December 31, 2006, the Cooper-Kenda joint venture included \$4.2 million of land use rights as Land and land improvements in the Property, plant and equipment section of the balance sheet. These land use rights have been reclassified to Other assets from Land and land improvements.

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

|                                   | Three months ended June |            | Six months ended June 30 |              |
|-----------------------------------|-------------------------|------------|--------------------------|--------------|
|                                   | 2006                    | 2007       | 2006                     | 2007         |
| Revenues from external customers: |                         |            |                          |              |
| North American Tire               | \$ 463,448              | \$ 553,687 | \$ 959,299               | \$ 1,088,261 |
| International Tire                | 185,904                 | 234,495    | 310,977                  | 417,456      |
| Eliminations                      | (24,567)                | (37,541)   | (48,909)                 | (65,991)     |
| Net sales                         | \$ 624,785              | \$ 750,641 | \$ 1,221,367             | \$ 1,439,726 |
| Segment profit (loss):            |                         |            |                          |              |
| North American Tire               | \$ (29,895)             | \$ 23,270  | \$ (35,807)              | \$ 51,355    |
| International Tire                | 7,710                   | 11,772     | 11,125                   | 17,886       |
| Eliminations                      | (844)                   | 413        | (1,672)                  | (411)        |
| Unallocated corporate charges     | (2,863)                 | (3,375)    | (3,877)                  | (6,333)      |

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|   |             |                  |             |                  |
|---|-------------|------------------|-------------|------------------|
| Operating profit (loss)   | (25,892)    | <b>32,080</b>    | (30,231)    | <b>62,497</b>    |
| Interest expense  | (11,584)    | <b>(12,157)</b>  | (22,397)    | <b>(24,676)</b>  |
| Interest income   | 2,097       | <b>4,259</b>     | 5,068       | <b>7,788</b>     |
| Debt extinguishment   |             |                  | 77          |                  |
| Dividend from unconsolidated subsidiary                         | (323)       |                  | 4,286       | <b>2,007</b>     |
| Other net   | (163)       | <b>1,847</b>     | (130)       | <b>6,453</b>     |
| Income (loss) from continuing operations before<br>income taxes | \$ (35,865) | <b>\$ 26,029</b> | \$ (43,327) | <b>\$ 54,069</b> |

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3. 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-month and six-month periods ended June 30, 2007, the Company recognized \$1,860 and \$2,317 of excess tax benefits, respectively, as a financing cash inflow.

In the second quarter of 2007, the Company awarded 8.3 stock options. The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

|   | 2006  | 2007  |
|---|-------|-------|
| Risk-free interest rate                           | 4.5%  | 4.6%  |
| Dividend yield                                    | 2.9%  | 2.2%  |
| Expected volatility of the Company's common stock | 0.350 | 0.360 |
| Expected life in years                            | 6.8   | 8.0   |

The weighted-average fair value of options granted in February of 2006 was \$4.56. The weighted-average fair value of options granted in May of 2007 was \$7.28. The estimated fair value of options is amortized to expense over the options' vesting period.

In the second quarter of 2007, the Company recorded \$88 of stock compensation expense associated with the 2006 and 2007 stock option awards and has recorded \$139 of stock compensation expense associated with these awards for the six months ended June 30, 2007.

With the adoption of SFAS No. 123(R), the Company has recognized compensation expense associated with restricted stock units granted in 2007 based on the earlier of the vesting date or the date when the employee becomes eligible to retire. For the six months ended June 30, 2007, the Company has recognized \$1,599 in compensation expense associated with restricted stock units and stock awards. For the six months ended June 30, 2006, the Company recognized \$577 in compensation expense associated with restricted stock units and stock awards.

The following table provides details of the restricted stock unit activity for the six months ended June 30, 2007:

|   |          |
|---|----------|
| Restricted stock units outstanding at January 1, 2007 | 126,475  |
| Restricted stock units granted                        | 284,334  |
| Accrued dividend equivalents                          | 3,635    |
| Restricted stock units settled                        | (38,387) |
| Restricted stock units outstanding at June 30, 2007   | 376,057  |

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4. The following table discloses the amount of net periodic benefit costs for the three-month and six-month periods ended June 30, 2006 and 2007 for the Company's defined benefit plans and other postretirement benefits relating to continuing operations:

|  | Pension Benefits   |          |                          |           |
|--|--------------------|----------|--------------------------|-----------|
|  | Three months ended |          | Six months ended June 30 |           |
|  | June 30<br>2006    | 2007     | 2006                     | 2007      |
| Components of net periodic benefit cost: |                    |          |                          |           |
| Service cost                             | \$ 5,626           | \$ 5,488 | \$ 11,214                | \$ 10,963 |
| Interest cost                            | 14,225             | 15,460   | 28,318                   | 30,866    |
| Expected return on plan assets           | (18,461)           | (19,288) | (36,778)                 | (38,517)  |
| Amortization of prior service cost       | 119                | 178      | 236                      | 355       |
| Recognized actuarial loss                | 4,706              | 3,806    | 9,393                    | 7,603     |
| Net periodic benefit cost                | \$ 6,215           | \$ 5,644 | \$ 12,383                | \$ 11,270 |

|  | Other Postretirement Benefits |          |                          |           |
|--|-------------------------------|----------|--------------------------|-----------|
|  | Three months ended            |          | Six months ended June 30 |           |
|  | June 30<br>2006               | 2007     | 2006                     | 2007      |
| Components of net periodic benefit cost: |                               |          |                          |           |
| Service cost                             | \$ 1,432                      | \$ 1,392 | \$ 2,863                 | \$ 2,785  |
| Interest cost                            | 3,901                         | 3,918    | 7,802                    | 7,837     |
| Amortization of prior service cost       | (77)                          | (77)     | (154)                    | (154)     |
| Recognized actuarial loss                | 877                           | 709      | 1,754                    | 1,418     |
| Net periodic benefit cost                | \$ 6,133                      | \$ 5,942 | \$ 12,265                | \$ 11,886 |

5. On an annual basis, disclosure of comprehensive income (loss) 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, underfunded postretirement benefit plans and in interim 2006 quarters only, minimum pension liability adjustments.

The Company's comprehensive income is as follows:

|   | Three months ended June |           | Six months ended June |           |
|---|-------------------------|-----------|-----------------------|-----------|
|   | 30<br>2006              | 2007      | 30<br>2006            | 2007      |
| Income (loss) from continuing operations                | \$ (22,922)             | \$ 17,551 | \$ (28,390)           | \$ 37,927 |
| Other comprehensive income (loss):                      |                         |           |                       |           |
| Currency translation adjustments                        | 4,427                   | 4,078     | 6,810                 | 5,430     |
| Unrealized net gains (losses) on derivative instruments | (888)                   | (3,582)   | (2,051)               | (4,013)   |
| Minimum pension liability                               | (1,226)                 |           | (1,637)               |           |
| Underfunded postretirement benefit plans                |                         | 3,344     |                       | 7,661     |

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|  |             |                  |             |                  |
|--|-------------|------------------|-------------|------------------|
| Comprehensive income (loss) from continuing operations | \$ (20,609) | \$ <b>21,391</b> | \$ (25,268) | \$ <b>47,005</b> |
|--|-------------|------------------|-------------|------------------|

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## 6. During 2007, the Company recorded restructuring expenses associated with five initiatives.

In May of 2006, the North American Tire Operations segment announced the planned closure of its manufacturing facility in Athens, Georgia with an estimated cost of between \$10,000 and \$11,000. The Company approved the manufacturing plant closure because this plant's production could be absorbed by other Company facilities. The facility was closed early in the third quarter of 2006. During the second quarter of 2007, the final payments were made and adjustments reducing the severance accrual in the amount of \$10 were recorded. Through the first six months of 2007, the Company recorded \$117 of restructuring costs associated with this initiative. The remaining assets of the facility were written down to fair value resulting in a charge of \$117. Employee relocation costs of \$6 were offset by adjustments for medical costs and a change in employment status which reduced the severance accrual by \$127. Equipment relocation and closure costs of \$121 were recorded. The total cost of this initiative through June 30, 2007 is \$11,240. At December 31, 2006, the accrued severance balance was \$410 and during the first six months, payments totaling \$283 were made and the above adjustments of \$127 were recorded. There is no accrued severance balance at June 30, 2007. At December 31, 2006, the assets of the facility, with a fair value of \$4,000, were considered as held for sale and were included on the Other current assets line of the Company's Consolidated Balance Sheets. In February 2007, the land, building and the majority of the equipment were sold for \$3,000.

In September of 2006, the North American Tire Operations segment announced its plans to reconfigure its tire manufacturing facility in Texarkana, Arkansas so that production levels could flex to meet tire demand. This reconfiguration is expected to result in a workforce reduction of approximately 350 people and is expected to be accomplished through attrition and layoffs. Certain equipment in the facility is being relocated to meet the flexible production requirements. The Company has targeted the end of the third quarter of 2007 as the completion date for this plant reconfiguration. The cost of this initiative is estimated to range from \$3,000 to \$3,750. This amount consists of equipment relocation and associated costs of between \$2,500 and \$3,000. These costs are lower than previously reported due to application of lean manufacturing tools and engineering changes in the reconfiguration that reduced the amount of equipment to be relocated. The personnel related costs are now estimated to be between \$500 and \$750. Due to the large number of voluntary separations, the Company has reduced the estimate of severance and related costs to be incurred. During the second quarter of 2007, the Company recorded \$1,046 for equipment relocation and related costs and \$475 for personnel related costs. Through the first six months of 2007, the Company has recorded equipment relocation and related costs of \$1,525 and personnel related costs of \$475. Of the personnel related costs, the Company has accrued severance costs of \$311 and related payments of \$80 resulting in an accrued severance balance at June 30, 2007 of \$231. The Company has recorded \$2,248 of equipment relocation costs and \$475 of employee related costs for this initiative to date.

In November of 2006, a restructuring of salaried support positions was announced. The restructuring was accomplished through reductions in part-time assistance, normal attrition and targeted severance actions. Approximately 81 full time equivalent positions were eliminated as a result of this initiative which was completed at the end of the first quarter of 2007. At December 31, 2006, there was an accrued severance balance of \$809. No additional charges were recorded for this initiative during the second quarter and through the first six months of 2007, the Company recorded \$444 of additional severance benefits and made payments of \$858, resulting in an accrued severance balance at June 30, 2007 of \$395. The Company accrued a total of \$1,291 of severance benefits associated with this initiative to date. Payments for employee outplacement services of \$6 were made during the quarter and total \$23 for the initiative to date.

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. Under this initiative, 481 molds were identified. At March 31, 2007, all identified molds had been taken out of service. Both the mold write-off and the increased depreciation expense associated with the change in the estimate of useful life were

recorded as restructuring expense. There were no additional costs recorded for this initiative during the second quarter and, through the first six months of 2007, \$80 of accelerated depreciation was recorded. Through June 30, 2007, \$378 of molds have been written-off and \$107 of additional depreciation associated with this initiative has been recorded.

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In Cooper Europe, a restructuring program to reduce 15 positions in operations was announced late in the first quarter of 2007. Of the 15 positions identified, 11 were achieved through attrition and the Company recorded \$150 in severance costs associated with the remaining four positions during the second quarter of 2007. A warehouse was closed in March 2007 resulting in the elimination of one position at a severance cost of \$38 which was recorded in the first quarter.

7. 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 since December 31, 2006:

|                              |           |
|------------------------------|-----------|
| Reserve at December 31, 2006 | \$ 15,967 |
| Additions                    | 7,779     |
| Payments                     | (7,712)   |
| Reserve at June 30, 2007     | \$ 16,034 |

8. The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are products liability cases in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. Litigation of this type has increased significantly throughout the tire industry following the Firestone tire recall announced in 2000.

The Company accrues costs for products liability at the time a loss is probable and the amount of loss can be estimated. The Company believes the probability of loss can be established and the amount of loss can be estimated only after certain minimum information is available, including verification that Company-produced products were involved in the incident giving rise to the claim, the condition of the product purported to be involved in the claim, the nature of the incident giving rise to the claim, and the extent of the purported injury or damages. In cases where such information is known, each products liability claim is evaluated based on its specific facts and circumstances. A judgment is then made, taking into account the views of counsel and other relevant factors, to determine the requirement for establishment or revision of an accrual for any potential liability. In most cases, the liability cannot be determined with precision until the claim is resolved. Pursuant to applicable accounting rules, the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. No specific accrual is made for individual unasserted claims or for asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known. However, an accrual for such claims based, in part, on management's expectations for future litigation activity is maintained. Because of the speculative nature of litigation in the United States, the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The total cost of resolution of such claims, or increase in reserves resulting from greater knowledge of specific facts and circumstances related to such claims, could have a greater impact on the consolidated results of operations and financial position of the Company in future periods and, in some periods, could be material.

The Company's exposure for each claim occurring prior to April 1, 2003 is limited by the coverage provided by its excess liability insurance program. The program for that period includes a relatively low per claim retention and a policy year aggregate retention limit on claims arising from occurrences which took place during a particular policy year. Effective April 1, 2003, the Company established a new excess liability insurance program. The new program covers the Company's products liability claims occurring on or after April 1, 2003 and is occurrence-based insurance coverage which includes an increased per claim retention limit, increased policy limits, and the establishment of a captive insurance company. For the policy years ending March 31, 2007 and 2008, the total per claim retention limit is \$25,000.



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The products liability expense reported by the Company includes amortization of insurance premium costs, adjustments to settlement reserves, and legal costs incurred in defending claims against the Company offset by recoveries of legal fees. Legal costs are expensed as incurred and products liability insurance premiums are amortized over coverage periods. The Company is entitled to reimbursement, under certain insurance contracts in place for periods ending prior to April 1, 2003, of legal fees expensed in prior periods based on events occurring in those periods.

For the three-month periods ended June 30, 2006 and 2007, products liability costs totaled \$15,098 and \$15,142, respectively, and include recoveries of legal fees of \$316 and \$1,185 in the periods ended June 30, 2006 and 2007, respectively. For the six-month periods ended June 30, 2006 and 2007, products liability expense totaled \$32,390 and \$29,224, respectively, and include recoveries of legal fees of \$2,883 and \$3,151, respectively. Policies applicable to claims occurring on April 1, 2003 and thereafter do not provide for recovery of legal fees.

9. The Company's other current assets are:

|                                    | December<br>31,<br>2006 | <b>June 30,<br/>2007</b> |
|------------------------------------|-------------------------|--------------------------|
| Investment in Kumho Tire Co., Inc. | \$                      | <b>\$ 107,961</b>        |
| Other                              | 21,686                  | <b>20,243</b>            |
|                                    | \$ 21,686               | <b>\$ 128,204</b>        |

The Company owns 15 million global depository shares (equivalent to 7.5 million common shares) of Kumho Tire Company, Inc. of Korea. The Company holds an option to sell such shares to Kumho Tire which is exercisable beginning in February 2008 at the greater of the price paid or the fair market value at the date of exercise. The Company presently intends to exercise the put option and, accordingly, has classified the investment in current assets.

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10. The Company's other assets are:

|                                    | December<br>31,<br>2006 | <b>June 30,<br/>2007</b> |
|------------------------------------|-------------------------|--------------------------|
| Investment in Kumho Tire Co., Inc. | \$ 107,961              | \$                       |
| Other                              | 61,217                  | <b>62,788</b>            |
|                                    | <b>\$ 169,178</b>       | <b>\$ 62,788</b>         |

11. The Company's accrued liabilities due within one year are:

|                           | December<br>31,<br>2006 | <b>June 30,<br/>2007</b> |
|---------------------------|-------------------------|--------------------------|
| Payroll and withhholdings | \$ 28,443               | <b>\$ 42,195</b>         |
| Dealer incentive programs | 19,778                  | <b>9,095</b>             |
| Products liability        | 16,056                  | <b>16,536</b>            |
| Other                     | 52,728                  | <b>89,824</b>            |
|                           | <b>\$ 117,005</b>       | <b>\$ 157,650</b>        |

12. For the quarter ended June 30, 2007, the Company recorded an income tax expense using forecasted annual effective tax rates which in the aggregate equaled 23.6 percent for continuing operations exclusive of discrete items. This compares to a forecasted annual effective tax benefit rate for continuing operations for the comparable 2006 quarter of 81.6 percent exclusive of discrete items. The 2007 annualized effective tax rate is favorably impacted by an anticipated net decrease in U.S. deferred tax assets which have been fully reserved by a valuation allowance as discussed below. The forecasted rate is adversely impacted by the mix of earnings by jurisdiction in 2007 as compared to the mix in 2006.

The resulting effective tax rate for the quarter and six month period ended June 30, 2007 for continuing operations is 20.9 percent and 26.5 percent, respectively, exclusive of discrete items. For comparable periods in 2006 the effective tax rates for continuing operations exclusive of discrete items were 41.2 percent and 38.1 percent, respectively.

The Company continues to maintain a valuation allowance pursuant to SFAS No. 109, Accounting for Income Taxes, on its net U.S. deferred tax asset position. The valuation allowance will be maintained as long as it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are determined separately for each taxing jurisdiction in which the Company conducts its operations or otherwise generates taxable income or losses. In the United States, the Company has recorded significant deferred tax assets, the largest of which relate to products liability, pension and other postretirement benefit obligations. These deferred tax assets are partially offset by deferred tax liabilities, the most significant of which relate to accelerated depreciation. Based upon this assessment, the Company maintains a \$126,527 valuation allowance for the portion of U.S. deferred tax assets exceeding its deferred tax liabilities.

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The Company has adopted FIN No. 48, Accounting for Uncertainty in Income Taxes . The Company's liability for unrecognized tax benefits for permanent and temporary book/tax differences for continuing operations, exclusive of interest, totals approximately \$2,000. Of this amount, the effective rate would change upon the recognition of approximately \$1,200 of these unrecognized tax benefits. The Company accrued approximately \$108 of interest expense for the quarter ended June 30, 2007 and for the six months ended June 30, 2007, has recorded approximately \$94 of interest expense as a tax benefit was recognized in the first quarter. The interest expense has been recorded as a discrete item in its tax provision. At June 30, 2007, the accrued interest balance for these tax contingencies was \$800. There has been no material change in these balances at June 30, 2007.

The Company and its subsidiaries are subject to income taxes in the U.S. federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and foreign tax examinations by tax authorities for years prior to 2000.

13. 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 will be completed upon receipt by the parties of necessary regulatory approvals and when other conditions are satisfied.

The sale does not meet the thresholds for the disposition of a significant subsidiary and therefore, no pro forma financial information is presented.

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This Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) presents information related to the consolidated results of operations of the Company, a discussion of the past results and future outlook of each of the Company's segments, and information concerning both the liquidity and capital resources of the Company. An important qualification regarding the forward-looking statements made in this discussion is then presented.

**Consolidated Results of Operations**

(Dollar amounts in millions except per share amounts)

|   | Three months ended June 30 |              |                 | Six months ended June 30 |              |                   |
|---|----------------------------|--------------|-----------------|--------------------------|--------------|-------------------|
|   | 2006                       | Change       | 2007            | 2006                     | Change       | 2007              |
| <b>Revenues:</b>  |                            |              |                 |                          |              |                   |
| North American Tire   | \$ 463.4                   | 19.5%        | \$ 553.7        | \$ 959.3                 | 13.4%        | \$ 1,088.3        |
| International Tire  | 185.9                      | 26.1%        | 234.5           | 311.0                    | 34.2%        | 417.4             |
| Eliminations  | (24.5)                     |              | (37.6)          | (48.9)                   |              | (66.0)            |
| <b>Net sales</b>  | <b>\$ 624.8</b>            | <b>20.1%</b> | <b>\$ 750.6</b> | <b>\$ 1,221.4</b>        | <b>17.9%</b> | <b>\$ 1,439.7</b> |
| <b>Segment profit (loss):</b>   |                            |              |                 |                          |              |                   |
| North American Tire   | \$ (29.9)                  | n/m          | \$ 23.3         | \$ (35.8)                | n/m          | \$ 51.3           |
| International Tire  | 7.7                        | 53.2%        | 11.8            | 11.1                     | 61.3%        | 17.9              |
| Eliminations  | (0.8)                      | n/m          | 0.4             | (1.6)                    | n/m          | (0.4)             |
| Unallocated corporate charges   | (2.9)                      | 17.2%        | (3.4)           | (3.9)                    | 61.5%        | (6.3)             |
| <b>Operating profit (loss)</b>  | <b>(25.9)</b>              | <b>n/m</b>   | <b>32.1</b>     | <b>(30.2)</b>            | <b>n/m</b>   | <b>62.5</b>       |
| Interest expense  | (11.6)                     | 5.2%         | (12.2)          | (22.4)                   | 10.3%        | (24.7)            |
| Interest income   | 2.1                        | 104.8%       | 4.3             | 5.1                      | 52.9%        | 7.8               |
| Dividend from unconsolidated subsidiary                                   | (0.3)                      |              |                 | 4.3                      | -53.5%       | 2.0               |
| Other net   | (0.2)                      | n/m          | 1.8             | (0.1)                    | n/m          | 6.4               |
| <b>Income (loss) from continuing operations before income taxes</b>       | <b>(35.9)</b>              |              | <b>26.0</b>     | <b>(43.3)</b>            |              | <b>54.0</b>       |
| <b>Income tax benefit (expense)</b>                                       | <b>16.1</b>                |              | <b>(5.5)</b>    | <b>18.4</b>              |              | <b>(12.8)</b>     |
| <b>Income (loss) from continuing operations before minority interests</b> | <b>(19.8)</b>              |              | <b>20.5</b>     | <b>(24.9)</b>            |              | <b>41.2</b>       |
| <b>Minority interests</b>   | <b>(3.1)</b>               |              | <b>(2.9)</b>    | <b>(3.5)</b>             |              | <b>(3.3)</b>      |



|  |           |         |           |         |
|--|-----------|---------|-----------|---------|
| Income (loss) from continuing operations | \$ (22.9) | \$ 17.6 | \$ (28.4) | \$ 37.9 |
| Basic earnings (loss) per share          | \$ (0.37) | \$ 0.28 | \$ (0.46) | \$ 0.61 |
| Diluted earnings (loss) per share        | \$ (0.37) | \$ 0.28 | \$ (0.46) | \$ 0.61 |

Consolidated net sales for the three-month period ended June 30, 2007 were \$125.8 million higher than for the comparable period one year ago. The increase in net sales for the second quarter of 2007 compared to the second quarter of 2006 was primarily the result of improved net pricing and higher unit volumes in both the North American Tire Operations and International Tire Operations segments. Operating profit in the second quarter of 2007 increased by \$58.0 million from the operating loss reported for the second quarter of 2006. The favorable impacts of the improved pricing and volume, along with lower advertising costs in the North American Tire Operations segment, were partially offset by higher raw material costs, less favorable plant operations and higher incentive-related compensation expense.

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Consolidated net sales for the six-month period ended June 30, 2007 were \$218.3 million higher than for the comparable period one year ago. During the first six months of 2007, the sales of Cooper-Chengshan were included for all six months while in 2006 only the sales from the acquisition date of February 4, 2006 until June 30, 2006 were included. This accounted for \$29.0 million of the sales increase. The remainder of the increase in net sales for the six months ended June 30, 2007 compared to the six months ended June 30, 2006 was the result of improved net pricing and higher unit volumes in both the North American Tire Operations and International Tire Operations segments. Operating profit in the first six months of 2007 increased by \$92.7 million from the operating loss reported for the first six months of 2006. The favorable impacts of the improved pricing and volume, along with lower advertising costs in the North American Tire Operations segment, were partially offset by higher raw material costs, less favorable plant operations and higher incentive-related compensation expense.

The Company continued to experience significant increases in the costs of certain of its principal raw materials during the second quarter and the first six months of 2007 compared with the levels experienced during the comparable periods of 2006. The principal raw materials for the Company include synthetic rubber, carbon black, natural rubber, chemicals and reinforcement components. A significant portion of the Company's raw materials are crude oil-based, a commodity which set new price ceilings during 2006 and continue to average over \$60 per barrel in the second quarter of 2007. The increases in the cost of crude oil and natural rubber were significant drivers of higher raw material costs during the second quarter of 2007, which were up about \$11.5 million from the second quarter of 2006, and about \$15.9 million for the six-month period ended June 30, 2007, from the comparable period in 2006. The pricing volatility in commodities, such as natural rubber and crude oil, contributed to the difficulty in managing the costs of raw materials. The price of crude oil and the growing global demand is contributing to the cost increases being experienced for raw materials used by the Company.

The Company manages the procurement of its raw materials to assure supply and to obtain the most favorable pricing. For natural rubber, procurement is managed by buying forward of production requirements, long-term contracts and spot purchases. For metal-based components, procurement is managed through long-term supply contracts. For other principal materials, procurement arrangements include multi-year supply agreements that may contain formula-based pricing based on commodity indices. These arrangements provide quantities necessary to satisfy normal manufacturing demands.

Selling, general, and administrative expenses were \$45.4 million in the second quarter of 2007 (6.0 percent of net sales) and \$46.9 million in the second quarter of 2006 (7.5 percent of net sales). This decrease was due primarily to lower advertising costs in the North American Tire Operations segment as a result of cost reductions and timing of advertising spending. This lower advertising spending was partially offset by higher incentive-related compensation expense in the second quarter of 2007 compared to the second quarter of 2006. For the six-month period ended June 30, 2007, selling, general and administrative expenses were \$87.3 million (6.1 percent of net sales) compared to \$94.8 million (7.8 percent of net sales) for the comparable period of 2006. This decrease was due to the same reasons cited for the quarter decrease.

During the second quarter of 2007, the Company recorded restructuring charges of \$1.7 million, primarily related to the previously announced reconfiguration of the Texarkana, Arkansas manufacturing facility. During the second quarter of 2006, the Company announced the planned closure of its manufacturing facility in Athens, Georgia and recorded \$8.2 million of restructuring costs. See Note 6 of the Notes to Condensed Consolidated Financial Statements for further discussion of these restructuring initiatives.

Interest expense increased \$0.6 million in the second quarter of 2007 from the second quarter of 2006. For the first six months of 2007, interest expense increased \$2.3 million compared to the same period in 2006. The increase for the quarter and six months was the result of the debt related to investments in China.

Interest income increased \$2.2 million and \$2.7 million in the second quarter and first six months of 2007, respectively, from comparable periods of 2006 as a result of higher cash levels in 2007 than in 2006.

The Company recorded dividend income from its investment in Kumho Tire Co., Inc. in both 2007 and 2006. The dividend rate in 2007 was approximately \$.27 per share and the rate in 2006 was approximately \$.57 per share. The Company owns the equivalent of 7,500,000 shares.



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Other net increased by \$6.5 million in the first six months of 2007 compared to 2006 as a result of the sale of a corporate aircraft and foreign currency gains being recorded in 2007 compared to losses in 2006. For the quarter ended June 30, 2007, the Company recorded an income tax expense using forecasted annual effective tax rates which in the aggregate equaled 23.6 percent for continuing operations exclusive of discrete items. This compares to an effective tax benefit rate for continuing operations for the comparable 2006 quarter of 81.6 percent. Taxes were calculated for the period utilizing anticipated effective tax rates by jurisdiction forecasted for the full year. The 2007 annualized effective tax rate is favorably impacted by an anticipated net decrease in U.S. deferred tax assets which have been fully reserved by a valuation allowance as discussed below. The forecasted rate is adversely impacted by the mix of earnings by jurisdiction in 2007 as compared to the mix in 2006. The resulting effective tax rate for the quarter and six month period ended June 30, 2007 for continuing operations is 20.9 percent and 26.5 percent, respectively, exclusive of discrete items. For comparable periods in 2006 the effective tax rates for continuing operations exclusive of discrete items were 41.2 percent and 38.1 percent, respectively. The Company continues to maintain a valuation allowance pursuant to SFAS No. 109, Accounting for Income Taxes, on its net U.S. deferred tax asset position. The valuation allowance will be maintained as long as it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are determined separately for each taxing jurisdiction in which the Company conducts its operations or otherwise generates taxable income or losses. In the United States, the Company has recorded significant deferred tax assets, the largest of which relate to products liability, pension and other postretirement benefit obligations. These deferred tax assets are partially offset by deferred tax liabilities, the most significant of which relate to accelerated depreciation. Based upon this assessment, the Company maintains a \$126.5 million valuation allowance for the portion of U.S. deferred tax assets exceeding its deferred tax liabilities.

**North American Tire Operations Segment**

|                              | Three months ended June 30 |        |         | Six months ended June 30 |        |           |
|------------------------------|----------------------------|--------|---------|--------------------------|--------|-----------|
|                              | 2006                       | Change | 2007    | 2006                     | Change | 2007      |
| (Dollar amounts in millions) |                            |        |         |                          |        |           |
| Net sales                    | \$463.4                    | 19.5%  | \$553.7 | \$959.3                  | 13.4%  | \$1,088.3 |
| Operating profit (loss)      | \$ (29.9)                  | n/m    | \$ 23.3 | \$ (35.8)                | n/m    | \$ 51.3   |
| Unit sales change            |                            | 10.9%  |         |                          | 3.7%   |           |

**Overview**

The North American Tire Operations segment produces passenger car and light truck tires, primarily for sale in the United States replacement market, and materials and equipment for the tread rubber industry. Major distribution channels and customers include independent tire dealers, wholesale distributors, regional and national retail tire chains, and large retail chains that sell tires as well as other automotive products. The segment does not sell its products directly to end users and does not manufacture tires for sale to the automobile original equipment manufacturers ( OEMs ).

**Sales**

Sales of the North American Tire Operations segment increased \$90.3 million in the second quarter of 2007 from levels in 2006. The increase in sales was a result of improved net pricing and product mix (\$54.0 million) and higher unit volume (\$36.3 million). The segment's increased unit sales in the SUV tire replacement market, along with the introduction of a new premium touring replacement tire, contributed to the improved product mix. The segment experienced increases in unit sales in nearly all of its tire lines.

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In the United States, the segment's unit sales of total light vehicle tires increased 12.7 percent in the second quarter of 2007 compared to the second quarter of 2006. This increase exceeds the 2.7 percent increase in total light vehicle shipments experienced by all members of the Rubber Manufacturers Association (RMA), and also exceeds the 3.1 percent increase in total light vehicle shipments for the total industry (which includes an estimate for non-RMA members) for the quarter. The increased shipments were driven by higher shipments of passenger car tire replacement units, where increases in the second quarter of 2007 compared to the same period in 2006 were 15.7 percent, 2.8 percent and 3.7 percent for the segment, RMA and total industry, respectively. Shipments of light truck tire replacement units remained relatively flat in the second quarter of 2007 compared to the same period of 2006, with the segment and RMA showing increases of 0.1 percent and 1.9 percent, respectively, and the total industry showing a decrease of 0.8 percent.

Sales of the North American Tire Operations segment increased \$129.0 million in the first six months of 2007 from levels in 2006. The increase in sales was a result of improved net pricing and product mix (\$110.0 million) and higher unit volume (\$19.0 million). The segment's increased unit sales in the SUV and premium light truck tire replacement markets, along with the introduction of a new premium touring replacement tire, contributed to the improved product mix.

In the United States, the segment's unit sales of total light vehicle tires increased 5.3 percent in the first six months of 2007 compared to the same period in 2006. This increase exceeds the 0.7 percent increase in total light vehicle shipments experienced by all members of the RMA, and also exceeds the 1.9 percent increase in total light vehicle shipments for the total industry (which includes an estimate for non-RMA members) for the first six months. The increased shipments were driven by higher shipments of passenger car tire replacement units, where increases in the first six months of 2007 compared to the same period in 2006 were 7.4 percent, 0.7 percent and 2.5 percent for the segment, RMA and total industry, respectively. Shipments of light truck tire replacement units were lower for the segment and total industry by 3.0 percent and 1.4 percent, respectively, while the RMA showed an increase of 0.6 percent.

The segment also experienced decreased volume in mixed rubber pounds sold in the retread and custom mixing markets in the second quarter and first six months of 2007 compared to the same periods in 2006. The decrease in mixed rubber pounds was due primarily to planned actions by the segment to eliminate certain unprofitable product lines.

**Operating Profit**

Segment operating profit increased \$53.2 million in the second quarter of 2007 from the level in the second quarter of 2006. The impacts of improved net pricing and product mix (\$36.9 million) and higher unit volume (\$7.6 million) were partially offset by higher incentive-related compensation expense and less favorable plant operations due to the reconfiguration of the Texarkana, Arkansas manufacturing facility and production inefficiencies as the Company continues to align its production to meet future market needs. The segment also experienced lower advertising costs due to cost reductions and timing of advertising spending and lower outside storage costs due to the reduced level of inventory. The second quarter of 2006 included the cost of reduced production levels as the segment temporarily shut down its four tire manufacturing facilities in order to control inventory levels.

During the second quarter of 2007, the segment recorded restructuring charges of \$1.5 million, primarily related to the previously announced reconfiguration of the Texarkana, Arkansas manufacturing facility. During the second quarter of 2006, the Company announced the planned closure of its manufacturing facility in Athens, Georgia and recorded \$8.2 million of restructuring costs. See Note 6 of the Notes to Condensed Consolidated Financial Statements for further discussion of these restructuring initiatives.

Segment operating profit increased \$87.1 million in the six months ended June 30, 2007 from the level in the same period of 2006. The impacts of improved net pricing and product mix (\$72.1 million) and higher unit volume (\$4.2 million) were partially offset by higher incentive-related compensation expense and less favorable plant operations due to the reconfiguration of the Texarkana, Arkansas manufacturing facility and production inefficiencies as the Company continues to align its production to meet future market needs. The segment also experienced lower advertising costs due to cost reductions and timing of advertising spending and lower outside



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storage costs due to the reduced level of inventory. The first six months of 2006 included the cost of reduced production levels as the segment temporarily shut down its four tire manufacturing facilities in order to control inventories resulting from the weak North American replacement tire market. The first six months of 2006 also included the cost to convert one of the segment's manufacturing facilities to a seven-day operation.

During the first six months of 2007, the segment recorded restructuring charges of \$2.7 million, primarily related to the previously announced reconfiguration of the Texarkana, Arkansas manufacturing facility and the reduction of salaried support positions. During the first six months of 2006, the Company announced the planned closure of its manufacturing facility in Athens, Georgia and recorded \$8.2 million of restructuring costs. See Note 6 of the Notes to Condensed Consolidated Financial Statements for further discussion of these restructuring initiatives.

**Segment Outlook**

The segment continues to be optimistic regarding its opportunities for 2007. The segment has launched new products in its premium touring line offering to satisfy current customer requirements. These new products are expected to improve the profitability of the segment by increasing sales and improving the mix of its products. In addition, the segment has been implementing productivity initiatives and other cost savings projects such as staffing and complexity reductions which will also contribute to improved earnings for the remainder of 2007.

The segment has previously outsourced radial medium truck and certain passenger tire products to Asian manufacturers, making domestic production capacity available for the production of larger light truck tires and other higher-margin products. The segment expects to source over two million radial medium truck and economy passenger tires in 2007 through various joint venture and outsourcing initiatives. These initiatives are important to the segment's ability to profitably provide tire products to its customers in North America.

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are products liability cases in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. In the future, products liability costs could have a materially greater impact on the consolidated results of operations and financial position of the Company.

The segment believes its operating profit levels will improve when compared to its 2006 results not only due to higher sales, but also due to the impact of improved pricing and product mix, the implementation of cost reduction programs, a slowing of raw material cost increases and the operation of its manufacturing facility in Texarkana, Arkansas on a flexible production schedule. Targeted growth plans for specific proprietary brand and key private brand customers, growth in ultra high performance product lines, the introduction of a new premium touring tire and increasing demand for sport utility vehicle tire lines are expected to yield higher margins and contribute favorably to the segment's operating profit.

**Table of Contents****International Tire Operations Segment**

|                              | Three months ended June 30 |        |          | Six months ended June 30 |        |          |
|------------------------------|----------------------------|--------|----------|--------------------------|--------|----------|
|                              | 2006                       | Change | 2007     | 2006                     | Change | 2007     |
| (Dollar amounts in millions) |                            |        |          |                          |        |          |
| Net sales                    | \$ 185.9                   | 26.1%  | \$ 234.5 | \$ 311.0                 | 34.2%  | \$ 417.4 |
| Operating profit             | \$ 7.7                     | 53.2%  | \$ 11.8  | \$ 11.1                  | 61.3%  | \$ 17.9  |
| Unit sales change            |                            | 8.6%   |          |                          | 22.4%  |          |

**Overview**

The International Tire Operations segment manufactures and markets passenger car, light truck and motorcycle tires for the replacement market, as well as racing tires and materials for the tire retread industry, in Europe and the United Kingdom. With the Company's ownership interest in Cooper-Chengshan, the International Tire Operations segment now manufactures and markets passenger car and light truck radial tires as well as radial and bias medium truck tires in the Asian market. The segment has completed construction of a plant in the Peoples Republic of China in a separate joint venture arrangement and all tires produced at this facility during the first five years will be exported to markets outside of China.

**Sales**

Sales of the International Tire Operations segment increased \$48.6 million, or 26.1%, in the second quarter of 2007 compared to the second quarter of 2006. Foreign currency changes had a favorable impact of \$9.8 million in the second quarter of 2007 compared to an unfavorable impact in 2006 of \$1.2 million. The remainder of the increase in sales in the second quarter of 2007 compared to the second quarter of 2006 was due to improved net pricing and product mix (\$12.2 million) and higher unit volumes (\$26.6 million).

Sales of the International Tire Operations segment increased \$106.4 million, or 34.2%, in the first six months of 2007 compared to the same period in 2006. The acquisition of Cooper-Chengshan contributed \$31.6 million of sales in the first six months of 2007. Foreign currency changes had a favorable impact of \$18.2 million in the first half of 2006 compared to an unfavorable impact in the first half of 2006 of \$6.8 million. The remainder of the increase in sales in the first six months of 2007 compared to the first six months of 2006 was due to improved net pricing and product mix (\$4.0 million) and higher unit volumes (\$52.6 million).

**Operating Profit**

Operating profit for the segment in the second quarter of 2007 was \$4.1 million higher than in 2006. The impacts of the improved net pricing and product mix (\$8.3 million), higher unit volumes (\$3.2 million) and a gain on the sale of land in Europe (\$2.2 million) were partially offset by higher raw material costs (\$10.4 million), higher expenses related to the startup of the segment's Asian operations and other costs.

Operating profit for the segment in the first six months of 2007 was \$6.8 million higher than in 2006. The impacts of the acquisition of Cooper-Chengshan, the segment's improved net pricing and product mix (\$14.6 million), higher unit volumes (\$8.9 million) and a gain on the sale of land in Europe (\$2.2 million) were partially offset by higher raw material costs (\$14.4 million), higher expenses related to the startup of the segment's Asian operations and other costs.



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### **Segment Outlook**

In Europe, the focus is on growing the Cooper and Avon brands in profitable market channels using performance and niche products. The strategically placed subsidiaries should continue to increase sales volume. Opportunities are ongoing for motorsport and motorcycle business worldwide. The manufacturing facility in Melksham, England will concentrate on high performance, racing and motorcycle products and additional opportunities for outsourced products from low-cost suppliers will be explored to round out the product mix to supply customer needs.

In Asia, the segment's strategy calls for alignment with strategic partners it believes will provide access to local markets and position the segment to take advantage of the significant growth anticipated in the region.

Effective February 4, 2006, the Company acquired a 51 percent ownership position in Cooper Chengshan (Shandong) Passenger Tire Co. Ltd. and Cooper Chengshan (Shandong) Tire Company, Ltd. The agreement includes a 25 percent position in the steel cord factory which is located adjacent to the tire manufacturing facility in Rongchen City, Shandong, China. The two companies together were known as Shandong Chengshan Tire Company, Ltd. ( Chengshan ) of Shandong, China. The companies manufacture passenger car and light truck radial tires as well as radial and bias commercial tires primarily under the brand names of Chengshan and Austone. In 2007, the companies have begun producing tires under various associated house brand names.

The International Tire Operations segment has a joint venture with Kenda Rubber Industrial Co., Ltd. of Taiwan ( Kenda ) which has constructed a tire manufacturing facility in the Peoples Republic of China. Initial production from this facility began in the first quarter of 2007. All tires produced at the facility during the first five years will be exported to markets outside of China. The segment also has a manufacturing supply agreement with Kenda to provide opening-price point passenger tires from China for distribution in the European and North American markets. The segment has formed these agreements in Asia which it believes will be sufficient to provide an adequate competitive position, immediate market recognition in China and a platform on which to build as the Asian market develops.

### **Outlook for Company**

The Company believes improving operating efficiencies, cost reduction projects and production realignment will enable it to continue to improve profitability in 2007 when compared to 2006 levels. The Company has specific projects focused on profitability improvement. It intends to reduce inventory by \$100 million from the June 30, 2006 levels by the end of 2007. It is committed to identify, approve and implement \$170 million in profit improvements through more contemporary product management, mix improvement, better pricing, a change in manufacturing strategy and a multitude of cost reduction initiatives.

Modest growth in performance and sport utility vehicle tires will also contribute to margin improvement. After a year of extraordinarily soft market demand, the industry is returning to more normal levels of growth, however, through the first six months of 2007, the growth rate was still below historical rates.

The Company continues to be cautious in its expectations of future profitability because of the unknown factors which impact this industry: consumer confidence, gasoline prices which relate to miles driven, raw material cost volatility, intense competition and currency fluctuations. Realization of its profit objectives is dependent upon achievement of its cost reduction goals and improvements in its North American plant operations.

Significant sales growth is anticipated in 2007 due to a full year of Cooper-Chengshan operations, new customer agreements and a favorable industry growth forecast. Product mix will continue to improve as new, premium products continue to be introduced. The Company is aggressively managing its exposure to products liability litigation.

Raw material prices continue to prove very difficult to predict accurately. The high cost of crude oil, natural gas and natural rubber are believed to be more stable overall in 2007, but continue to remain volatile in the short term.

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The Company continues to experience price escalation in these key commodities. The Company believes raw material costs will continue to increase during the second half of 2007 but at a less rapid rate in comparison to 2006. The Company expects less volatility during the remainder of the year based on the fundamentals and global economic conditions of these key commodities. To address the higher raw material costs, the Company continues to evaluate the need for product price increases.

**Liquidity and Capital Resources**

**Generation and uses of cash** Net cash provided by operating activities of continuing operations was \$159.1 million during the first six months of 2007, an increase of \$284.1 million from the \$125.0 million used in the first six months of 2006. Income after adjustments for non-cash items increased by \$59.5 million. Changes in operating assets and liabilities generated \$49 million in cash in 2007 versus a use of \$175.6 million in 2006. In 2006, the inclusion of the Cooper-Chengshan operations contributed to the increases in accounts receivable and inventories.

Net cash used in investing activities during the first six months of 2007 reflects capital expenditures of \$78.8 million and proceeds from the sale of assets, the majority from the sale of a corporate aircraft, of \$9.1 million. During the first six months of 2006 net cash used in investing activities reflects the Company's acquisition of its ownership position in Cooper-Chengshan for \$40.2 million, net of cash acquired, and capital expenditures of \$76.6 million.

During the first six months of 2007, short-term notes decreased \$20.6 million primarily for the Company's Asian operations. The Company's Cooper Kenda joint venture issued long-term debt of \$9.7 million and Cooper Chengshan issued long-term debt of \$19.5 million. Cooper Kenda also received \$8.5 million from its joint venture partner for construction of the tire manufacturing facility in China.

During the first six months of 2006, Cooper-Chengshan issued \$15 million of long-term debt to its minority interest shareholder and \$21 million in short-term debt to financial institutions. The Company also borrowed \$40 million under its revolving credit facility. The Company's Cooper-Kenda joint venture received \$13.0 million from its joint venture partner for construction of the tire manufacturing facility in China. The Board of Directors authorized the repurchase of up to \$350 million of the Company's outstanding debt on May 2, 2005 and the Company repurchased \$4.0 million of debt during the first six months of 2006.

The Company's Board of Directors, at its August 3, 2007 meeting, authorized the repurchase of up to \$200 million of the Company's publicly traded notes. The repurchase of debt may be accomplished through open market transactions, a tender offer, or a combination of the two.

Dividends paid on the Company's common shares in the first six months of 2007 and 2006 were \$13 million and \$12.9 million, respectively. During the first six months of 2007, stock options were exercised to acquire 1,035,283 shares of common stock.

**Available credit facilities** The Company has an unsecured revolving credit facility with a consortium of ten banks that provides up to \$175 million in credit facilities and expires August 31, 2008. The Company has initiated action to replace this facility with a five year, asset-backed line, secured by U.S. inventory and accounts receivable not pledged elsewhere. The Company also has an accounts receivable securitization facility with a \$175 million limit. This facility will be amended to reflect the pending sale of Oliver Rubber Company (see Note 13 of the Notes to Condensed Consolidated Financial Statements) and the Company intends to extend the maturity to 2010.

As of June 30, 2007 the Company was in compliance with the financial covenants contained in its credit agreements. At that date, the ratio of consolidated net indebtedness to consolidated capitalization was 35.5 percent and the interest coverage was 6.6 times compared to requirements of 55 percent maximum net indebtedness to consolidated capitalization ratio and minimum 3 times interest coverage. The Company anticipates that it will remain in compliance with these covenants in 2007 based upon its business forecast for the year.

**Available cash and contractual commitments** At June 30, 2007 the Company had cash and cash equivalents of \$281.1 million and short-term investments of \$50 million. The Company's additional borrowing capacity through use of its credit agreement with its bank group and its accounts receivable securitization facility at June 30, 2007 was \$330 million.

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The Company expects capital expenditures for 2007 to be in the \$200 million range. Of this capital expenditure amount, approximately \$100 million will be in consolidated entities where the Company's ownership is at or near 50 percent.

At June 30, 2007, the Company had remaining obligations of \$17.9 million to Chengshan relating to the acquisition of its 51 percent interest in the two Chinese companies previously wholly owned by Chengshan. These obligations are due upon the signing of the share pledge agreement providing collateral against unknown liabilities or upon the resolution of post-closing adjustments for which the period extended to July 2007. This amount is expected to be paid to Chengshan in August 2007.

There are no significant long-term debt obligations due by the Company or its wholly owned subsidiaries until 2009.

**Contingencies**

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are products liability cases in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. Litigation of this type has increased significantly throughout the tire industry following the Firestone tire recall announced in 2000. In the future, products liability costs could have a materially greater impact on the consolidated results of operations and financial position of the Company than in the past. After reviewing all of these proceedings, and taking into account all relevant factors concerning them, the Company does not believe that any liabilities resulting from these proceedings are reasonably likely to have a material adverse effect on its liquidity, financial condition or results of operations in excess of amounts recorded at June 30, 2007. The Company is aggressively managing its products liability costs.

**Forward-Looking Statements**

This report contains what the Company believes are forward-looking statements, as that term is defined under the Private Securities Litigation Reform Act of 1995, regarding projections, expectations or matters that the Company anticipates may happen with respect to the future performance of the industries in which the Company operates, the economies of the United States and other countries, or the performance of the Company itself, which involve uncertainty and risk. Such forward-looking statements are generally, though not always, preceded by words such as anticipates, expects, believes, projects, intends, plans, estimates, and similar terms that connote a view to the future and are not merely recitations of historical fact. Such statements are made solely on the basis of the Company's current views and perceptions of future events, and there can be no assurance that such statements will prove to be true. It is possible that actual results may differ materially from those projections or expectations due to a variety of factors, including but not limited to:

- changes in economic and business conditions in the world, especially the continuation of the global tensions and risks of further terrorist incidents that currently exist;

- increased competitive activity, including the inability to obtain and maintain price increases to offset higher production or material costs;

- the failure to achieve expected sales levels;

- consolidation among the Company's competitors and customers;

- technology advancements;

- fluctuations in raw material and energy prices, including those of steel, crude petroleum and natural gas and the unavailability of such raw materials or energy sources;

- changes in interest and foreign exchange rates;

- increases in pension expense resulting from investment performance of the Company's pension plan assets and changes in discount rate, salary increase rate, and expected return on plan assets assumptions;

government regulatory initiatives, including the proposed and final regulations under the TREAD Act;

changes in the Company's customer relationships, including loss of particular business for competitive or other reasons;

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the impact of labor problems, including a strike brought against the Company or against one or more of its large customers;

litigation brought against the Company;

an adverse change in the Company's credit ratings, which could increase its borrowing costs and/or hamper its access to the credit markets;

the inability of the Company to execute its cost reduction/Asian strategies;

the failure of the Company's suppliers to timely deliver products in accordance with contract specifications;

the impact of reductions in the insurance program covering the principal risks to the Company, and other unanticipated events and conditions; and

the failure of the Company to achieve the full cost reduction and profit improvement targets set forth in presentations made by senior management and filed on Forms 8-K on September 7, 2006, October 31, 2006 and April 5, 2007.

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

The Company makes no commitment to update any forward-looking statement included herein or to disclose any facts, events or circumstances that may affect the accuracy of any forward-looking statement.

Further information covering issues that could materially affect financial performance is contained in the Company's periodic filings with the U. S. Securities and Exchange Commission ( SEC ).

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in market risk at June 30, 2007 from those detailed in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2006.

**Item 4. CONTROLS AND PROCEDURES**

Pursuant to the requirements of the Sarbanes-Oxley Act of 2002, the Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer of the Company, have evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of the Company's disclosure controls and procedures, including its internal controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

There have been no changes in the Company's internal control over financial reporting during the second quarter of 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Part II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are products liability cases in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. Litigation of this type has increased significantly throughout the tire industry following the Firestone tire recall announced in 2000. In the future, products liability costs could have a materially greater impact on the consolidated results of operations and financial position of the Company than in the past. After reviewing all of these proceedings, and taking into account all relevant factors concerning them, the Company does not believe that any liabilities resulting from these proceedings are reasonably likely to have a material adverse effect on its liquidity, financial condition or results of operations in excess of amounts recorded at June 30, 2007.

**Item 1A. RISK FACTORS**

There have been no material changes in the risk factors at June 30, 2007 from those detailed in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2006.

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**Item 6. EXHIBITS**

(a) Exhibits

- (31.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (31.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32) Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COOPER TIRE & RUBBER  
COMPANY

/s/ P. G. Weaver

P. G. Weaver  
Vice President and Chief  
Financial Officer  
(Principal Financial Officer)

/s/ R. W. Huber

R. W. Huber  
Director of External Reporting  
(Principal Accounting Officer)

August 6, 2007

(Date)